A Monthly Report from The Conference Board

INTERNATIONAL ECONOMIC SCOREBOARD

The Conference Board

OCTOBER, 1986

SUMMARY

New composite indexes for the Group of Seven (G-7) countries have been compiled (see page 4). The G-7 economic performance index reveals a slowing growth rate, but the G-7 leading index gives a more optimistic reading. Continuing expansion, perhaps at an accelerating rate, is the message.

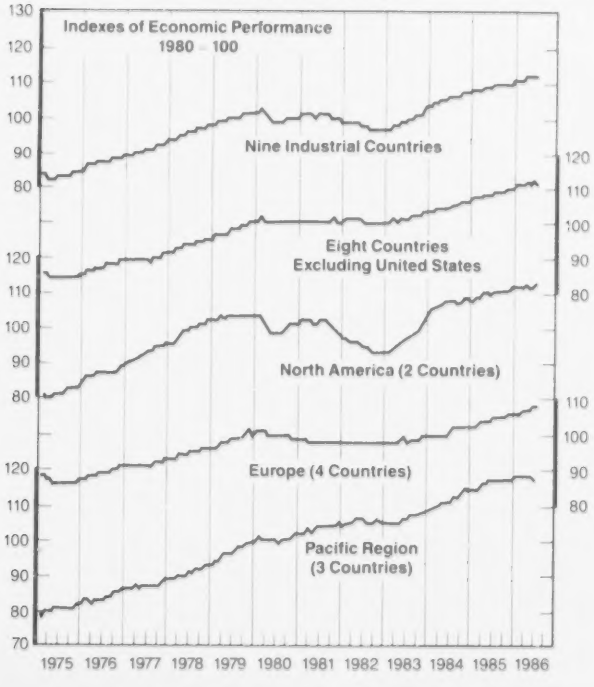
Every one of the seven countries is contributing to this positive picture, though in varying degrees. The leading indexes for three of the seven—Japan, Italy and France—are now registering rapid growth, namely 8 to 9 percent. For Japan this is a sharp reversal of the recent trend. The other four countries in the Group of Seven—the U.S., the U.K., Canada and West Germany—exhibit only slow to moderate growth in their leading indexes, in the range of 1 to 4 percent.

The two countries included in the *Scoreboard* that are outside the Group of Seven show dramatically different patterns. In Australia, the weakness in the leading index that has persisted for about a year seems now to have penetrated to the performance index, which dropped sharply in July. The shining example among all nine countries covered by the *Scoreboard* is Taiwan, R.O.C., with double-digit growth rates in both the leading and performance indexes.

	Ten-year Growth Rate 1969-79	Indexes of Economic Performance Growth Rates* 6 mos. ago	3 mos. ago	Latest month	Leading Business Cycle Indexes Growth Rates* 6 mos. ago	3 mos. ago	Latest month	Current Reading on the Cycle	Latest Month Covered
	annual rates, percent								
9 countries	4	4	4	2	3	4	5	Expansion continuing	July
8 countries ex. U.S.	4	3	3	1	2	4	5	Expansion continuing	July
North America (2)	3	4	4	2	4	4	3	Expansion continuing	July
Europe (4)	3	4	4	3	3	6	5	Expansion continuing	July
Pacific Region (3)	5	3	2	–1	1	1	7	Expansion stalling, leaders strong	July
United States	3	3	2	2	5	2	2	Expansion continuing	Aug.
Canada	4	5	4	1	4	4	2	Expansion continuing	July
West Germany	3	5	7	6	3	5	4	Expansion continuing	July
France	4	5	4	4	2	8	9	Expansion continuing, leaders strong	July/Aug.
United Kingdom	2	2	2	1	1	0	1	Expansion continuing, leaders weak	July
Italy	3	2	1	4	9	13	8	Expansion continuing, leaders strong	May/July
Japan	5	2	2	–1	0	2	8	Expansion stalling, leaders strong	July
Australia	4	9	5	–2	0	–6	–4	Expansion stalling, leaders weak	July
Taiwan, R.O.C.	10	8	8	10	12	13	14	Expansion continuing, leaders strong	Aug.

* Ratio of current month's index to average index over the preceding 12 months, expressed as a compound annual rate.

Where We Are


Indexes of Economic Performance
1980 = 100
Nine Industrial Countries
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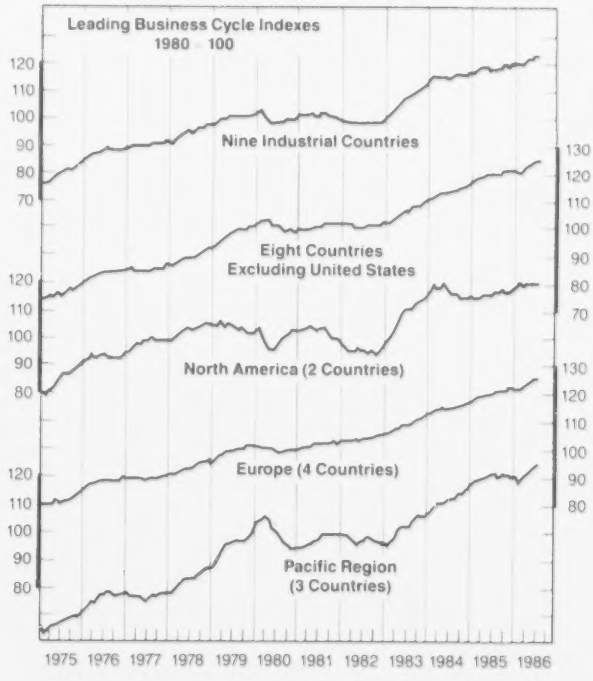
North America (2 Countries)
Europe (4 Countries)
Pacific Region (3 Countries)
1975 1976 1977 1978 1979 1980 1981 1982 1983 1984 1985 1986

Where We're Headed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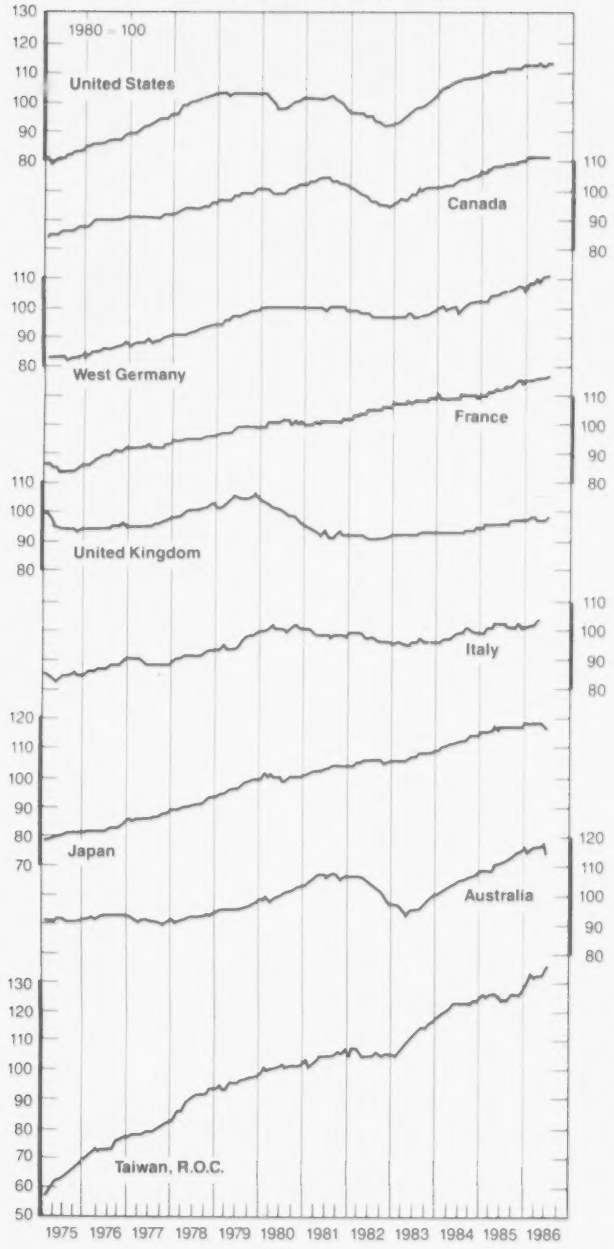
70th Anniversary

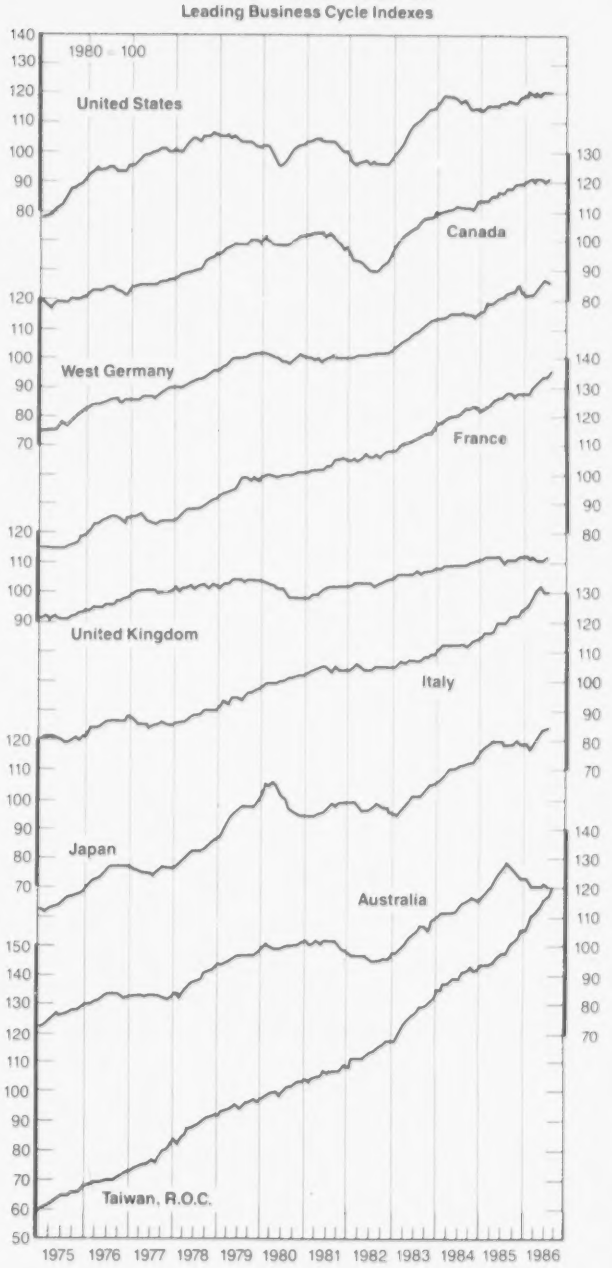
Where We Are

Indexes of Economic Performance



Where We're Headed

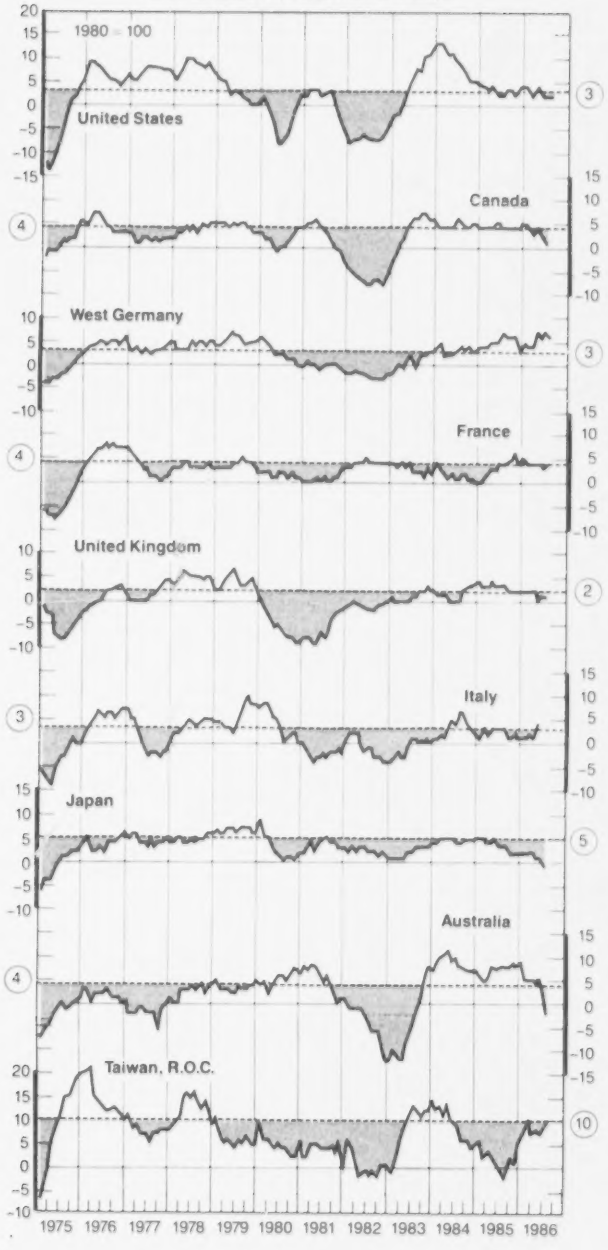
Leading Business Cycle Indexes



Sources: CIBCR and The Conference Board

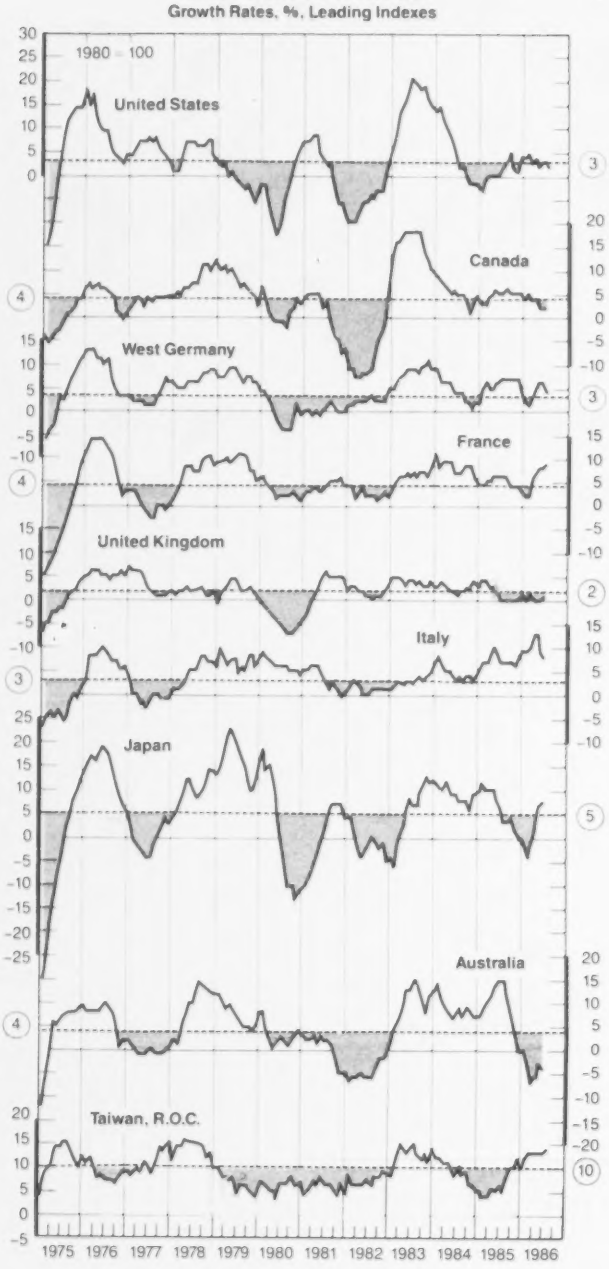
Where We Are

Growth Rates, %, Performance Indexes



Where We're Headed

Growth Rates, %, Leading Indexes



Note Horizontal dashed lines are average rates for 1969-79 in the index and in Real GNP.

Sources: CIBCR and The Conference Board

A LEADING INDEX FOR THE GROUP OF SEVEN

At the economic summit meeting in Tokyo last May, the world's seven major industrial countries—known as the Group of Seven or G-7—agreed on "close and continuous coordination of policies." While implementation of that decision has proved to be an extremely difficult task for policymakers, it is worth asking how the combined economies of the seven countries have been performing and, more important, what appears to be in store for them.

We have, therefore, put together leading and performance indexes for the G-7 countries as a group—indexes comparable to those we publish regularly for nine countries. The performance index measures how well the seven are doing in terms of production, employment, unemployment, income and trade. The leading index tells whether their performance is about to get better or worse.

Each country's weight in the index is based upon its 1980 gross national product, measured in dollars. This gives the U.S. the heaviest weight, with Japan and West Germany next. As percentages of total G-7 GNP, the countries line up as follows: U.S., 42%; Japan, 18%; West Germany, 12%; France, 10%; United Kingdom, 8%; Italy, 6%; and Canada, 4%.

The indexes and their growth rates have been computed back to 1955, as shown on the accompanying chart. Over the years, the G-7 performance index shows the usual ups and downs of the business cycle, but the long-run trend is up—at a 3.3% rate from 1969 to 1979. On six occasions since 1955, the growth rate of the economic performance index has turned negative. These periods of cyclical weakness, however, have been brief. Negative growth was recorded for a total of 52 months out of the 365 months covered, or about one year for every seven. Thus expansion has prevailed, on average, six years out of seven. The longest recession was in 1981-83, lasting 17 months. The longest expansion lasted 12 years, from 1958 to 1970.

Can the leading index help us tell when another recessionary period is coming? A way to do this is to watch for a signal, which we define as occurring when the leading-index growth rate first turns negative. The record shows eight such signals since 1956. The dates when the signals went "on" and when they went "off" (i.e., when the leading-index growth rate became positive again) are shown in the accompanying table. The table also records what happened to the economic performance index between these dates.

We find that when the recession signals were "on" the performance index either declined or grew very little. In other words, when the leading index growth rate turned negative, the G-7 countries (as a group) were either going into recession or headed for a period of slow growth. Alternatively, when the leading index signals were "off," the G-7 performance index rose vigorously —except on one occasion, in 1981, when it held steady for about a year. When the leading index signaled recession, the average rate of change in the performance index was -1.6% per year. When the leading index signaled expansion, the average growth rate in the performance index was 5.2 percent.

What is the leading index for the Group of Seven saying now? For every month since November 1982 it has been saying "expansion," and the performance index has dutifully obeyed, with a growth rate averaging 3.9% over the 44 months to July 1986. The latest growth rate in the economic performance index is 1.7% in July, which is below the trend level of 3.3 percent. The latest growth rate for the leading index, at 4.7% in July 1986, is well above the recession signal level (zero) and also well above the trend level. Hence it may be signaling a more vigorous expansion ahead for the Group of Seven.

EARLY WARNING SIGNALS FROM THE GROUP-OF-SEVEN LEADING INDEX: THEIR RELATION TO ECONOMIC PERFORMANCE

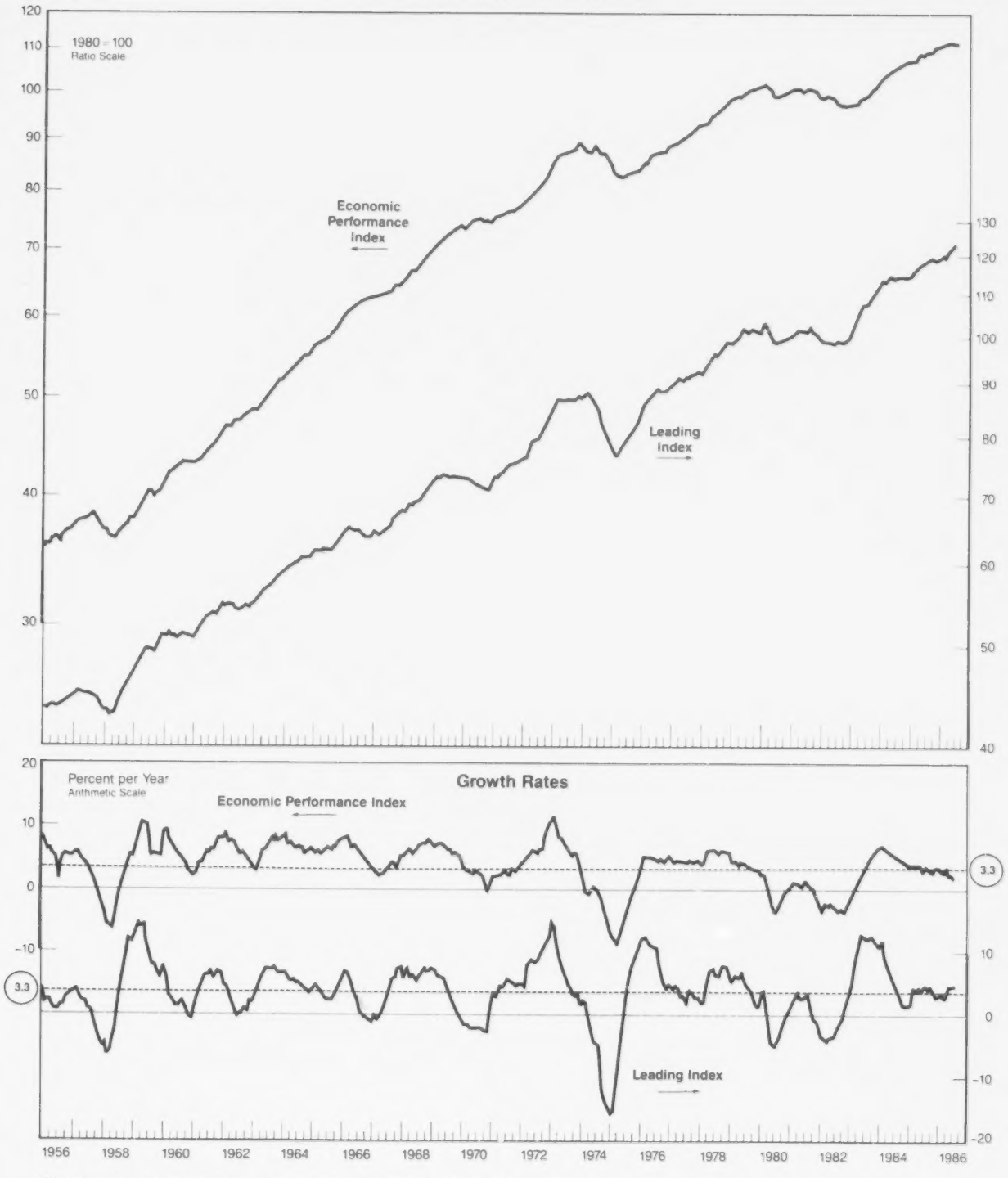
Leading Index Signal Dates[a]		*Interval between Signal Dates*		*Economic Performance Index at Signal Dates*		*Percent Change in Performance Index between Signal Dates*		*Annual Growth Rate between Signal Dates*	
Peak(P)	Trough(T)	T to P	P to T	P	T	T to P	P to T	T to P	P to T
		(months)		(1980 = 100)		(percent)		(percent)	
Sep. 1957				38.1					
	June 1958		9		36.7		-3.7		-4.9
Nov. 1960		29		42.9		16.9		6.7	
	Jan. 1961		2		43.0		0.2		1.4
June 1962		17		47.6		10.7		7.4	
	Aug. 1962		2		48.0		0.8		5.1
Sept. 1966		49		62.1		29.4		6.5	
	Apr. 1967		7		62.9		1.3		2.2
Dec. 1969		32		73.9		17.5		6.2	
	Dec. 1970		12		74.8		1.2		1.2
Apr. 1974		40		87.5		17.0		4.8	
	July 1975		15		82.6		-5.6		-4.5
Apr. 1980		57		100.2		21.3		4.2	
	Dec. 1980		8		100.3		0.1		0.1
Oct. 1981		10		100.0		-0.3		-0.4	
	Nov. 1982		13		96.9		-3.1		-2.9
July 1986[b]		44		111.6		15.2		3.9	
Total or Average		278	68			220.7	-8.6	5.2	-1.6

[a] Based on the six-month smoothed growth rate in the leading index. Peak is the first month when the rate becomes negative. Trough is the first month when the rate becomes positive.

[b] Latest date, not a peak signal. The growth rate for July 1986 was 4.7%.

Economic Indexes

Group of Seven Major Industrial Countries



Note: Horizontal dashed lines represent average annual growth rates in real GNP and the indexes for 1969-79.

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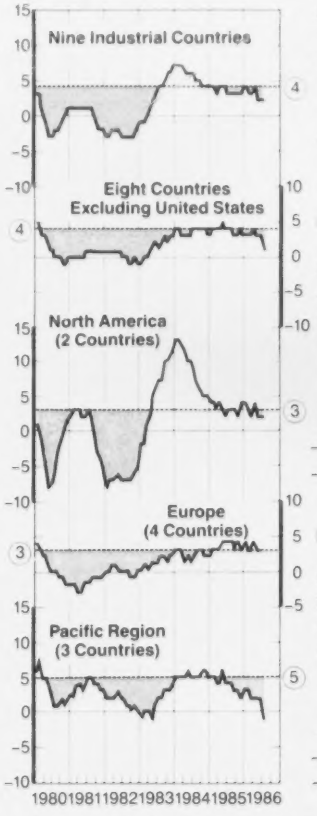
INDEXES, NINE COUNTRIES, 1985-86

		U.S.		Canada		West Germany		France		U.K.		Italy		Japan		Australia		Taiwan, R.O.C.	
		Indexes, 1980 = 100																	
		Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.
July	85	110	117	108	117	106	121	113	127	96	110	102	120	117	119	112	127	125	148
Aug.	85	111	117	109	118	106	122	113	128	96	111	101	120	117	118	112	128	124	148
Sept.	85	111	118	109	118	106	123	113	128	97	111	101	121	117	118	113	126	124	151
Oct.	85	110	117	109	119	107	123	114	127	97	111	101	122	117	119	114	125	126	152
Nov.	85	111	117	110	119	107	124	115	128	97	111	102	122	117	119	115	124	126	153
Dec.	85	112	118	110	119	106	123	114	128	97	112	101	124	117	118	115	123	127	156
Jan.	86	112	119	111	120	108	122	115	128	97	112	101	125	118	118	116	123	130	156
Feb.	86	112	120	111	121	108	122	115	128	98	111	102	126	118	116	115	122	132	158
Mar.	86	112	119	111	120	108	123	115	130	98	112	102	128	118	117	116	120	133	161
Apr.	86	113	120	111	121	110	125	116	132	98	111	102	130	118	119	116	120	132	162
May	86	112	119	111	121	109	126	116	133	97	111	104	132	118	121	116	120	133	164
June	86	112	120	111	120	111	127	116	134	97	111		130	118	123	118	121	133	165
July	86	113	120	111	121	111	126	117	134	98	112		130	116	124	114	120	135	167
Aug.	86	113	120						136									136	170
		Growth Rates, Percent																	
July	85	2	2	4	5	7	7	4	6	3	0	3	7	4	6	8	15	-1	6
Aug.	85	3	3	4	6	6	7	4	6	3	0	1	7	4	3	8	15	-2	5
Sept.	85	3	5	4	5	6	7	4	5	2	0	1	7	3	3	8	11	-1	8
Oct.	85	2	2	4	5	6	7	5	4	2	0	1	7	2	4	8	7	2	10
Nov.	85	3	1	4	5	5	7	6	4	2	0	2	6	2	2	9	3	1	10
Dec.	85	4	4	5	5	3	4	4	3	2	1	1	8	2	0	8	0	2	12
Jan.	86	4	4	5	4	5	3	5	2	2	1	1	9	2	0	9	0	7	10
Feb.	86	3	5	4	5	4	1	4	2	2	0	1	9	2	-4	5	-2	8	12
Mar.	86	2	3	3	4	4	3	4	5	2	2	2	10	2	-2	5	-7	10	13
Apr.	86	4	4	4	4	7	5	4	7	2	0	1	13	2	2	5	-6	7	13
May	86	2	2	3	3	5	6	4	8	0	0	4	13	1	5	4	-6	8	13
June	86	2	3	2	2	7	6	3	8	1	0		9	1	7	5	-3	7	13
July	86	2	3	1	2	6	4	4	8	1	1		8	-1	8	-2	-4	9	13
Aug.	86	2	2						9									10	14
		Ten Year Annual Growth Rate, Percent																	
1969-79		3	3	4	4	3	3	4	4	3	3	2	2	5	5	4	4	10	10

		9 Countries		8 Countries ex. U.S.		North America (2)		Europe (4)		Pacific Region (3)	
		Indexes, 1980 = 100									
		Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.
July	85	109	119	109	120	110	117	105	120	117	121
Aug.	85	110	119	109	120	110	117	105	121	117	120
Sept.	85	110	120	109	121	110	118	105	121	117	120
Oct.	85	110	120	110	121	110	117	105	121	117	121
Nov.	85	110	119	110	121	111	117	106	122	117	120
Dec.	85	111	120	110	121	112	118	106	122	117	120
Jan.	86	111	120	110	121	112	119	106	122	118	120
Feb.	86	111	120	111	120	112	120	106	122	118	118
Mar.	86	111	120	111	122	112	119	107	123	118	119
Apr.	86	112	122	112	123	113	120	107	124	118	121
May	86	112	122	111	124	112	120	107	125	118	122
June	86	112	123	112	125	112	120	108	126	118	124
July	86	112	123	111	125	113	120	108	126	117	125
		Growth Rates, Percent									
July	85	4	4	4	6	3	3	4	5	4	7
Aug.	85	4	4	4	5	3	3	4	5	4	5
Sept.	85	3	5	3	5	3	5	4	5	3	4
Oct.	85	3	4	3	5	2	3	4	5	3	5
Nov.	85	3	3	4	4	3	2	4	4	3	3
Dec.	85	3	3	3	3	4	4	3	4	2	1
Jan.	86	4	3	3	2	4	4	4	3	3	1
Feb.	86	3	2	3	1	3	5	3	2	3	-3
Mar.	86	3	2	3	2	2	3	3	4	2	-2
Apr.	86	4	4	3	4	4	4	4	6	2	1
May	86	2	4	3	5	2	2	3	6	2	4
June	86	2	5	3	6	2	3	3	6	2	6
July	86	2	5	1	5	2	3	3	5	-1	7
		Ten Year Annual Growth Rate, Percent									
1969-79		4	4	4	4	3	3	3	3	5	5

Where We Are

Growth Rates, %, Performing Indexes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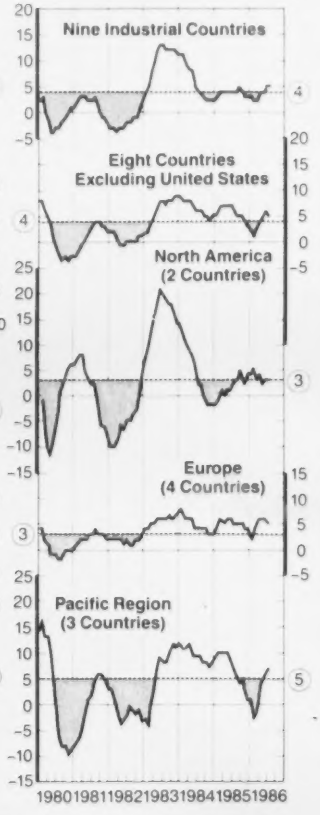
Where We're Headed

Growth Rates, %, Leading Indexes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Note: Horizontal dashed lines are average growth rates for 1969-79 in the index and in real GNP.

Sources: CIBCR and The Conference Board

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The Conference Board

NOVEMBER, 1986

SUMMARY

The leading business cycle indexes show considerable diversity in different parts of the industrial world. In four countries the leaders are moving up vigorously: France, Italy, Japan, and Taiwan, R.O.C. In three countries—the United States, Canada and West Germany—the leading indexes are moderately strong. In the United Kingdom and Australia, however, the leaders continue to display some weakness. For the nine countries as a group, this mixture of strength and weakness yields a leading index growth rate of 4 percent.

Taiwan is the only country whose economic performance index is rising rapidly, at a 9 percent rate in September. In West Germany, Italy and France the performance growth rates are in the 4 to 5 percent range, while sluggish 1 to 2 percent rates appear in the indexes for Japan and Australia. The comprehensive index for the 9 countries is moving up slowly, at a growth rate of two percent.

	Ten-year Growth Rate 1969-79	Indexes of Economic Performance Growth Rates* 6 mos. ago	3 mos. ago	Latest month	Leading Business Cycle Indexes Growth Rates* 6 mos ago	3 mos ago	Latest month	Current Reading on the Cycle	Latest Month Covered
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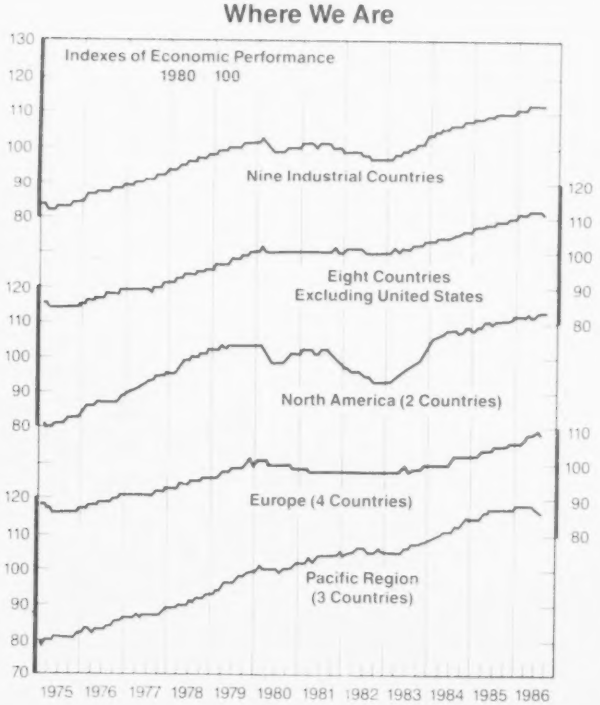
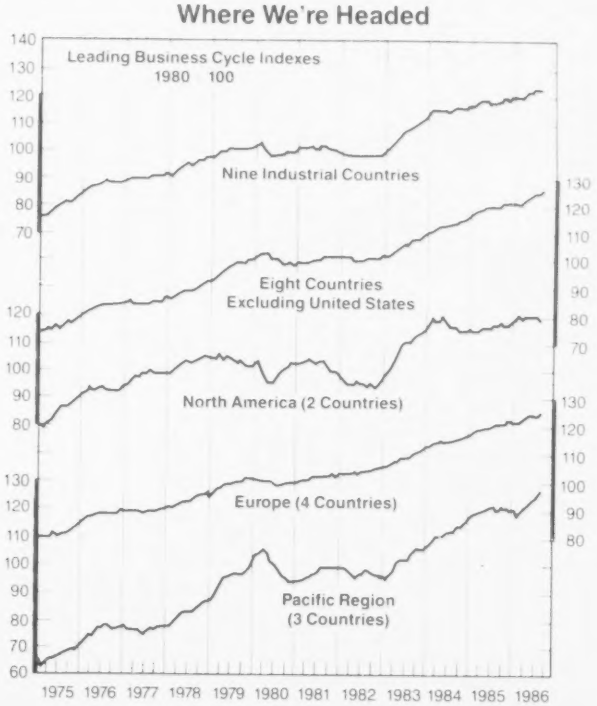
8 countries ex. U.S.	4	3	3	1	1	5	6	Expansion continuing	Aug
North America (2)	3	3	2	2	5	3	1	Expansion continuing	Aug
Europe (4)	3	3	3	3	2	6	5	Expansion continuing	Aug
Pacific Region (3)	5	3	2	-2	-3	4	9	Expansion stalling, leaders strong	Aug
United States	3	2	2	2	3	3	3	Expansion continuing	Sept
Canada	4	4	2	1	5	3	2	Expansion continuing	Aug
West Germany	3	4	7	5	1	6	4	Expansion continuing	Sept /Aug
France	4	4	4	4	5	7	11	Expansion continuing, leaders strong	Aug /Sept
United Kingdom	2	2	1	2	1	0	-1	Expansion continuing, leaders weak	Aug
Italy	3	0	1	5	8	13	8	Expansion continuing, leaders strong	July/Aug
Japan	5	2	1	-2	-4	5	10	Expansion stalling, leaders strong	Aug
Australia	4	5	4	-2	-2	-6	-2	Expansion stalling, leaders weak	Aug
Taiwan, R.O.C.	10	10	7	9	13	13	12	Expansion continuing, leaders strong	Sept

* Ratio of current month's index to average index over the preceding 12 months, expressed as a compound annual rate.

Where We Are



Where We're Headed



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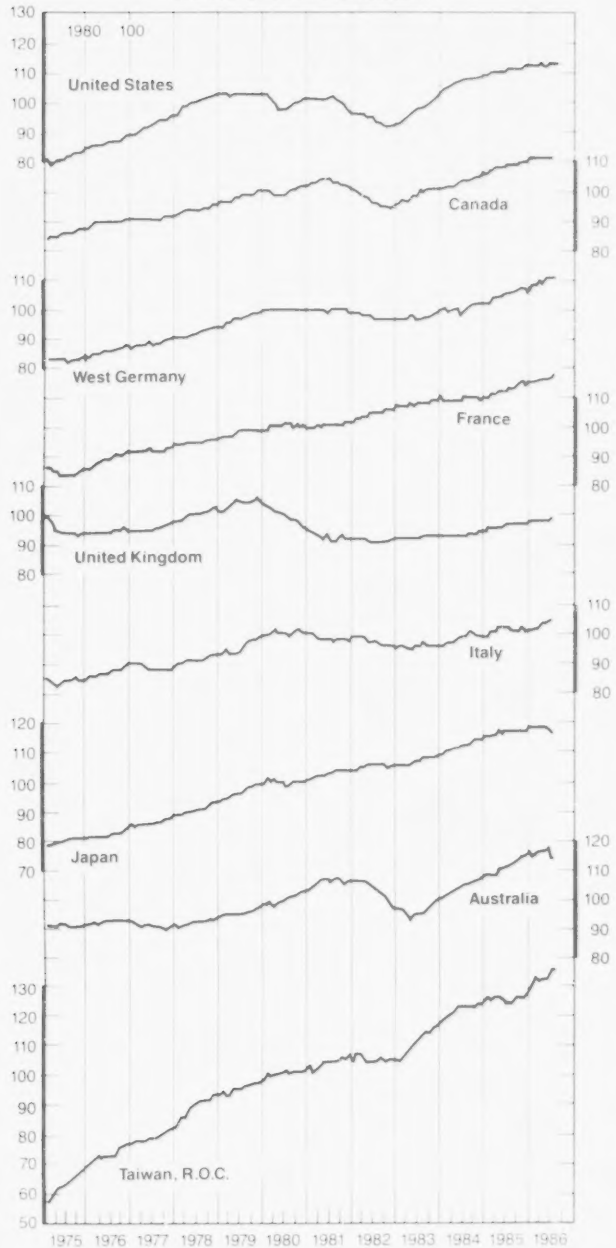
70th Anniversary

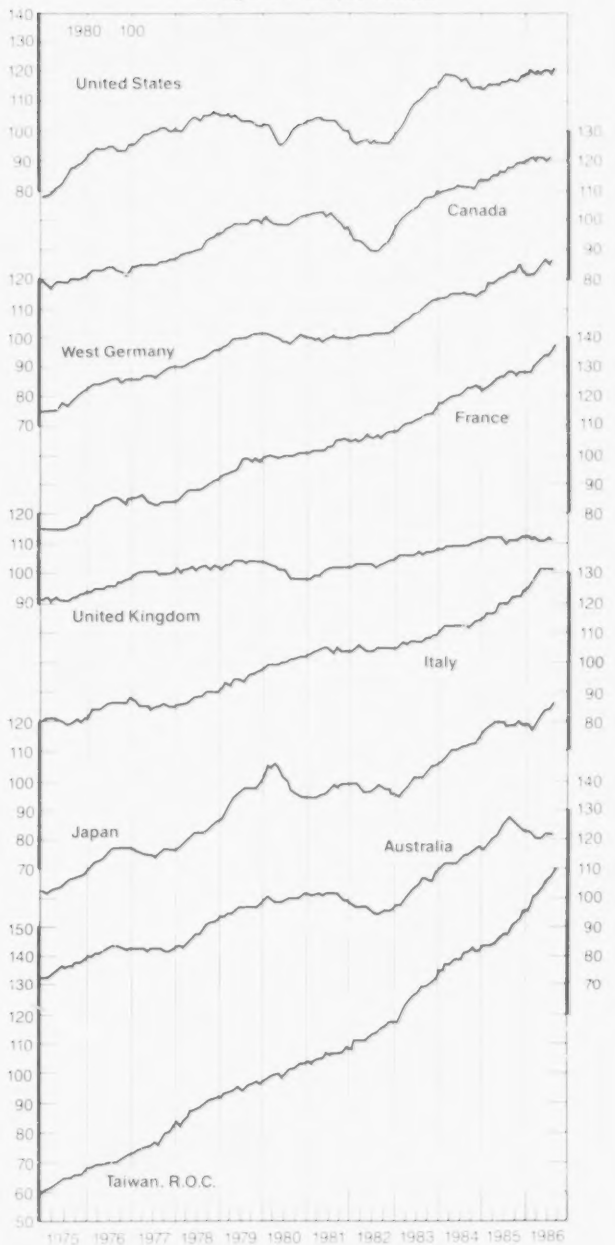
Where We Are

Indexes of Economic Performance



Where We're Headed

Leading Business Cycle Indexes



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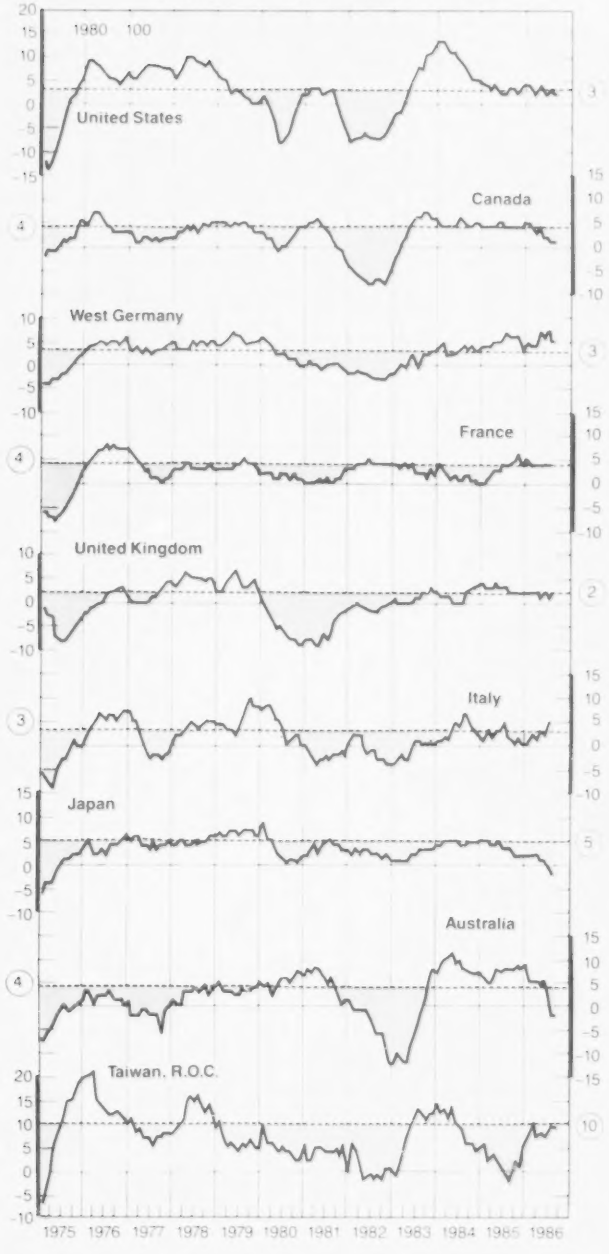
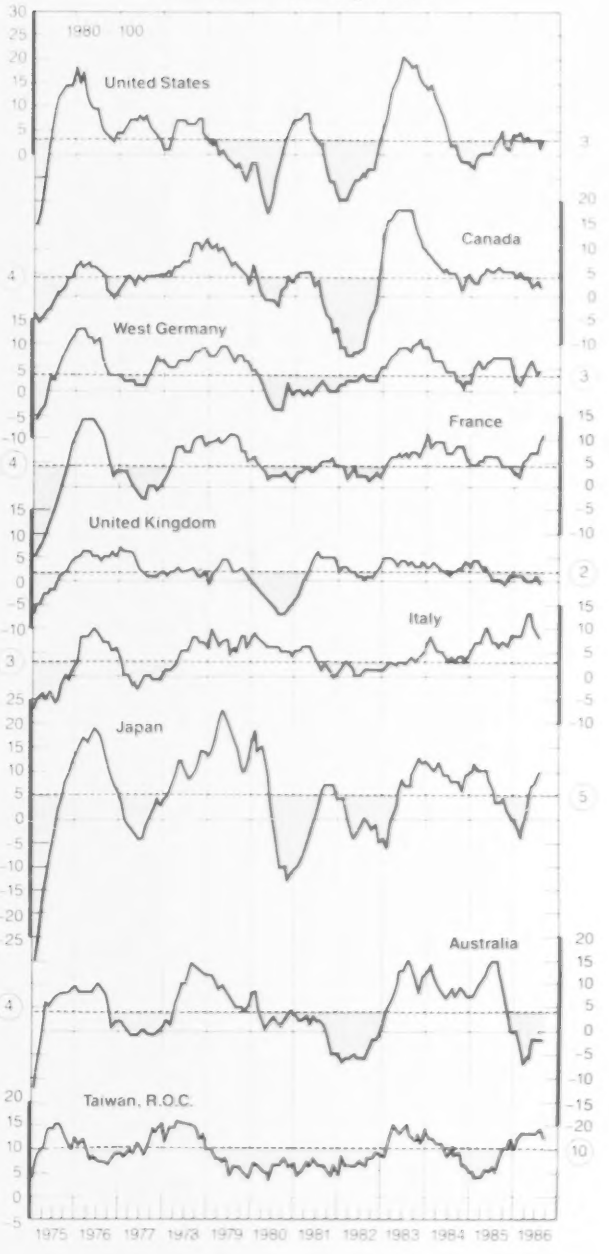
Growth Rates, %, Performance Indexes



Where We're Headed

Growth Rates, %, Leading Indexes



Note: Horizontal dashed lines are average rates for 1969-79 in the index and in Real GNP.

Sources: CIBCR and The Conference Board

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B-1050 Brussels, Belgium

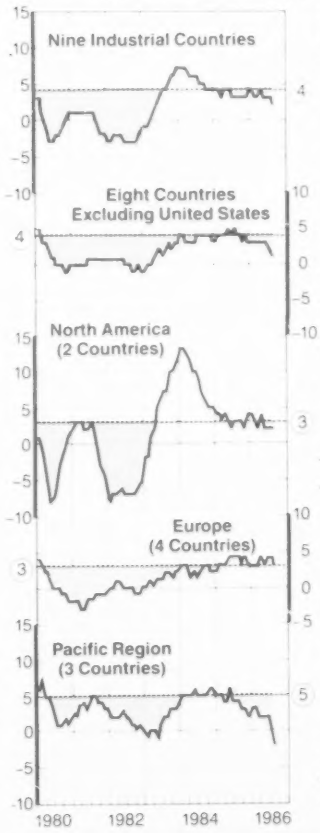
INDEXES, NINE COUNTRIES, 1985-86

		U.S.		Canada		West Germany		France		U.K.		Italy		Japan		Australia		Taiwan, R.O.C.	
		Indexes, 1980 = 100																	
		Perf.	Lead	Perf.	Lead	Perf.	Lead	Perf.	Lead	Perf.	Lead	Perf.	Lead	Perf.	Lead	Perf.	Lead	Perf.	Lead
July	85	110	117	108	117	106	121	113	127	97	110	103	120	117	119	112	127	125	148
Aug.	85	111	117	109	118	106	122	113	128	97	111	102	120	117	118	112	128	124	148
Sept.	85	110	118	109	118	106	123	113	128	97	111	101	121	117	118	113	126	124	151
Oct.	85	110	117	109	119	107	123	114	127	97	111	101	122	117	119	114	125	126	152
Nov.	85	111	117	110	119	107	124	115	128	97	111	102	122	117	119	115	124	126	153
Dec.	85	112	118	110	119	106	123	114	128	97	112	101	124	117	118	115	123	127	156
Jan.	86	112	119	111	120	108	122	115	128	98	112	101	124	118	118	116	123	130	156
Feb.	86	112	120	111	121	108	122	115	128	98	112	102	126	118	116	115	122	132	158
Mar.	86	112	119	111	120	108	123	115	130	98	112	102	127	118	117	116	120	133	161
Apr.	86	113	120	111	121	110	125	116	132	98	111	102	130	118	119	116	120	132	162
May	86	112	120	111	121	109	126	116	133	98	111	104	131	118	121	116	120	133	164
June	86	112	120	111	120	111	126	116	134	98	111	103	131	118	123	118	122	133	165
July	86	113	120	111	121	111	125	117	134	98	112	105	131	117	124	114	122	135	167
Aug.	86	113	119	111	121	111	126	118	136	99	111		131	116	126	114	122	136	169
Sept.	86	113	121			111			138									136	170
		Growth Rates, Percent																	
July	85	2	2	4	5	7	7	4	6	3	0	5	7	4	6	8	15	-1	6
Aug.	85	3	3	4	6	6	7	4	6	2	0	2	6	4	3	8	15	-2	5
Sept.	85	3	5	4	5	6	7	4	5	2	0	1	7	3	3	8	11	-1	8
Oct.	85	2	2	4	5	6	7	5	4	2	-1	0	7	2	4	8	7	2	10
Nov.	85	3	1	4	5	5	7	6	4	2	0	1	6	2	2	9	3	1	10
Dec.	85	4	4	5	5	3	4	4	3	2	1	0	8	2	0	8	0	2	12
Jan.	86	4	4	5	4	5	3	5	3	2	1	0	8	2	0	9	0	7	10
Feb.	86	3	5	4	5	4	1	4	2	2	1	1	8	2	-4	5	-2	8	12
Mar.	86	2	3	3	4	4	3	4	5	2	1	2	10	2	-2	5	-6	10	13
Apr.	86	4	4	4	4	7	5	4	6	2	0	1	13	2	2	5	-6	7	13
May	86	2	3	2	3	5	6	4	7	1	0	3	13	1	5	4	-6	8	13
June	86	2	3	2	2	7	5	4	7	2	0	2	10	1	7	5	-2	7	13
July	86	3	3	1	3	7	3	4	7	1	1	5	9	-1	8	-2	-2	9	13
Aug.	86	2	1	1	2	5	4	4	9	2	-1		8	-2	10	-2	-2	9	14
Sept.	86	2	3			5			11									9	12
		Ten Year Annual Growth Rate, Percent																	
1969-79		3	3	4	4	3	3	4	4	3	3	2	2	5	5	4	4	10	10

		9 Countries		8 Countries ex. U.S.		North America (2)		Europe (4)		Pacific Region (3)	
		Indexes, 1980 = 100									
		Perf.	Lead	Perf.	Lead	Perf.	Lead	Perf.	Lead	Perf.	Lead
July	85	110	119	109	120	110	117	105	120	117	121
Aug.	85	110	119	109	120	110	117	105	121	117	120
Sept.	85	110	120	109	120	110	118	105	121	117	120
Oct.	85	110	120	110	121	110	117	105	121	117	121
Nov.	85	110	119	110	121	111	117	106	122	117	120
Dec.	85	111	120	110	121	112	118	106	122	117	120
Jan.	86	111	120	111	121	112	119	106	122	118	120
Feb.	86	111	120	111	120	112	120	106	122	118	118
Mar.	86	111	120	111	122	112	119	107	123	118	119
Apr.	86	112	122	112	123	113	120	108	124	118	121
May	86	112	122	112	124	112	120	108	125	118	122
June	86	112	123	112	125	112	120	108	125	118	124
July	86	112	123	112	125	113	120	109	125	117	125
Aug.	86	112	123	111	126	113	119	108	126	116	127
		Growth Rates, Percent									
July	85	4	4	5	6	3	3	5	5	4	7
Aug.	85	4	4	4	5	3	3	4	5	4	5
Sept.	85	3	5	4	5	3	5	4	5	3	4
Oct.	85	3	4	3	5	2	3	4	4	3	5
Nov.	85	3	3	4	4	3	2	4	4	3	3
Dec.	85	3	3	3	3	4	4	3	4	2	1
Jan.	86	4	3	3	2	4	4	3	3	3	1
Feb.	86	3	2	3	1	3	5	3	2	3	-3
Mar.	86	3	2	3	2	2	3	3	4	2	-2
Apr.	86	4	4	3	4	4	4	4	5	2	1
May	86	3	4	3	5	2	3	3	6	2	4
June	86	3	4	3	6	2	3	4	6	2	6
July	86	3	4	2	6	2	3	4	5	0	7
Aug.	86	2	4	1	6	2	1	3	5	-2	9
		Ten Year Annual Growth Rate, Percent									
1969-79		4	4	4	4	3	3	3	3	5	5

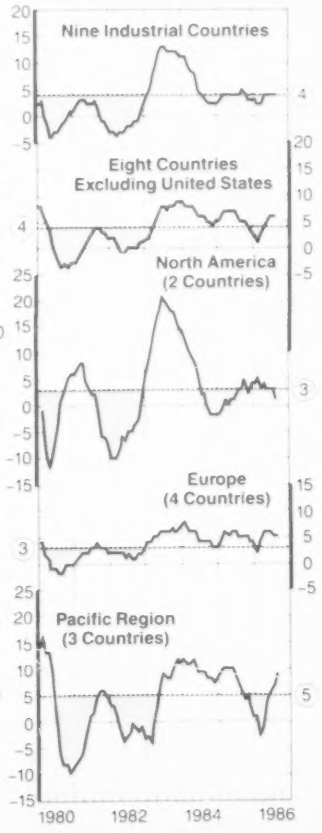
Where We Are

Growth Rates, %, Performing Indexes



Where We're Headed

Growth Rates, %, Leading Indexes



Note: Horizontal dashed lines are average growth rates for 1969-79 in the index and in real GNP.

Sources: CIBCR and The Conference Board

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A Monthly Report from The Conference Board

INTERNATIONAL ECONOMIC SCOREBOARD

The Conference Board

DECEMBER, 1986

SUMMARY

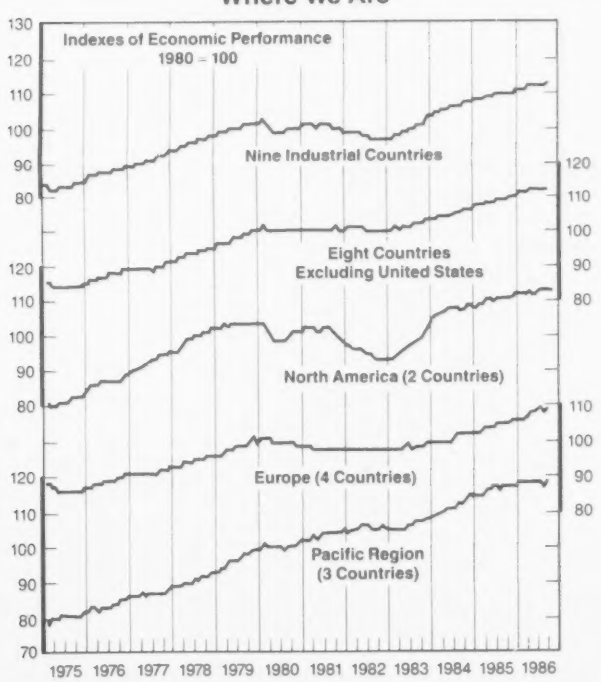
The world business expansion is gaining momentum. In the United Kingdom and Australia the leading indexes have switched direction from decline to growth. In the United States, Japan and France, the leaders have strengthened further. This concerted action has brought the growth rate of the nine-country index to 7 percent, the fastest since early 1984. Taiwan, R.O.C., remains the star performer, with its leading index growth rate hitting 14 percent.

The economic performance indexes are moving ahead at a more modest pace but, in view of the good news from the leading indexes, faster economic growth should be reported before long. Each country can look forward to the gains promised by its own leading index, and also to some stimulus derived from the improvement taking place abroad. Under these conditions, the industrial world's expansion is self-reinforcing.

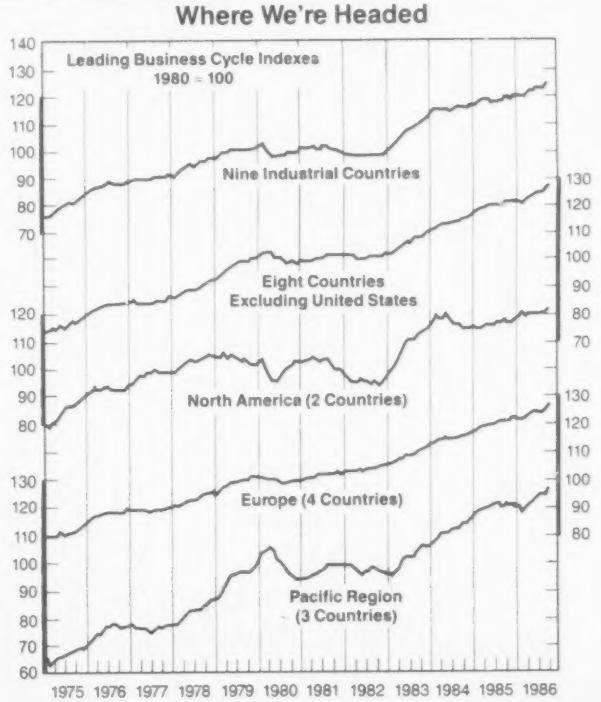
	Ten-year Growth	Indexes of Economic Performance Growth Rates*			Leading Business Cycle Indexes Growth Rates*				
	Rate 1969-79	6 mos. ago	3 mos. ago	Latest month	6 mos. ago	3 mos. ago	Latest month	Current Reading on the Cycle	Latest Month Covered
	annual rates, percent								
9 countries	4	3	3	3	2	4	7	Expansion continuing	Sept.
8 countries ex. U.S.	4	3	3	3	2	5	7	Expansion continuing	Sept.
North America (2)	3	2	2	3	3	3	5	Expansion continuing	Sept.
Europe (4)	3	3	4	4	4	5	7	Expansion continuing	Sept.
Pacific Region (3)	5	2	2	1	-2	6	8	Expansion stalling, leaders strong	Sept.
United States	3	4	3	3	4	3	6	Expansion continuing	Oct.
Canada	4	3	2	1	4	3	3	Expansion continuing	Sept.
West Germany	3	4	7	6	3	6	4	Expansion continuing	Sept.
France	4	4	4	4	5	7	11	Expansion continuing, leaders strong	Sept.
United Kingdom	2	2	2	2	1	-1	4	Expansion continuing	Sept.
Italy	3	1	3	-1	10	9	8	Expansion stalling, leaders strong	Aug./Sept.
Japan	5	2	1	1	-2	7	9	Expansion stalling, leaders strong	Sept.
Australia	4	5	5	1	-7	-2	3	Expansion stalling, leaders reviving	Sept.
Taiwan, R.O.C.	10	7	9	10	13	13	14	Expansion continuing, leaders strong	Oct.

* Ratio of current month's index over the preceding 12 months, expressed as a compound annual rate.

Where We Are


Indexes of Economic Performance
1980 = 100
Nine Industrial Countries
Eight Countries Excluding United States
North America (2 Countries)
Europe (4 Countries)
Pacific Region (3 Countries)
1975 1976 1977 1978 1979 1980 1981 1982 1983 1984 1985 1986

Where We're Headed


Leading Business Cycle Indexes
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Nine Industrial Countries
Eight Countries Excluding United States
North America (2 Countries)
Europe (4 Countries)
Pacific Region (3 Countries)
1975 1976 1977 1978 1979 1980 1981 1982 1983 1984 1985 1986

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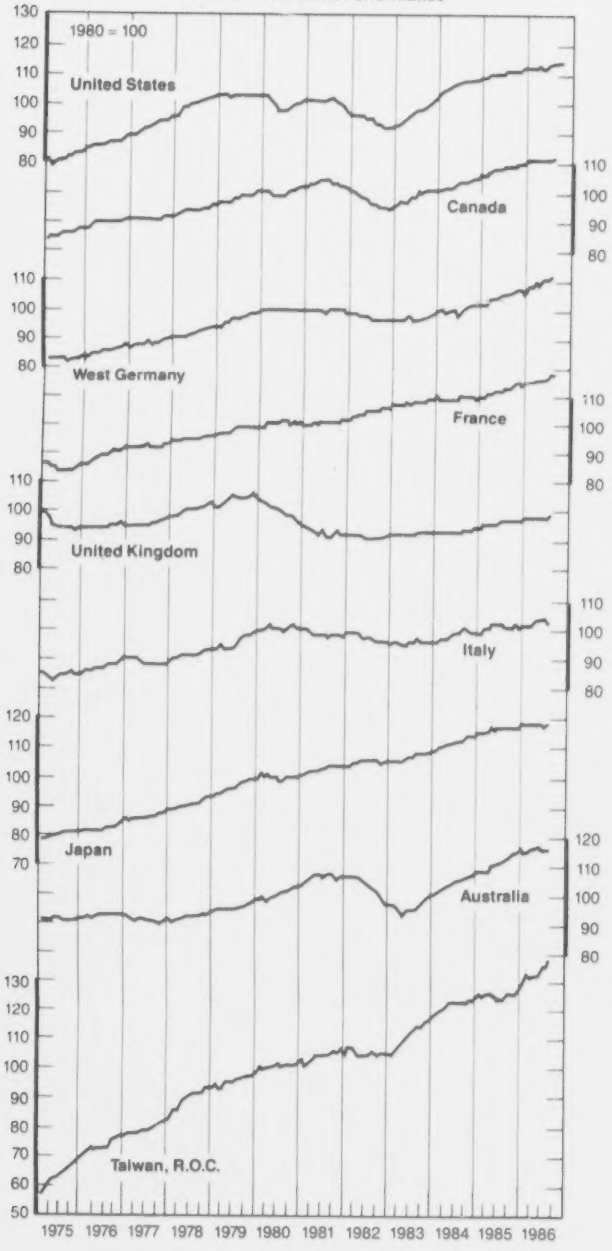
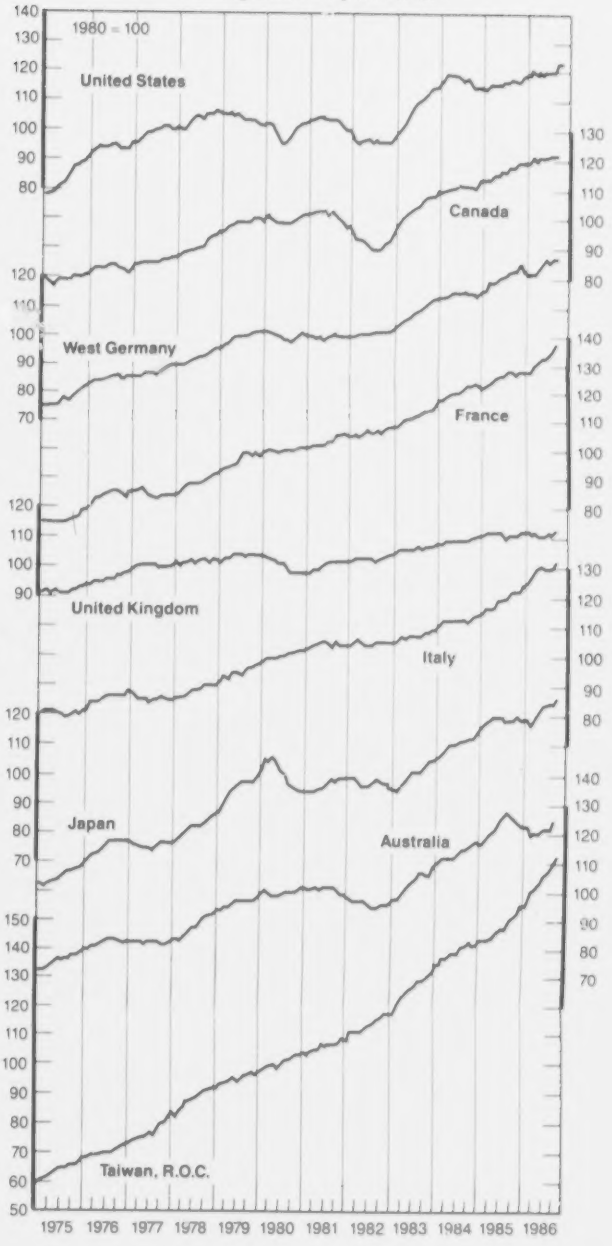
Where We Are

Indexes of Economic Performance



Where We're Headed

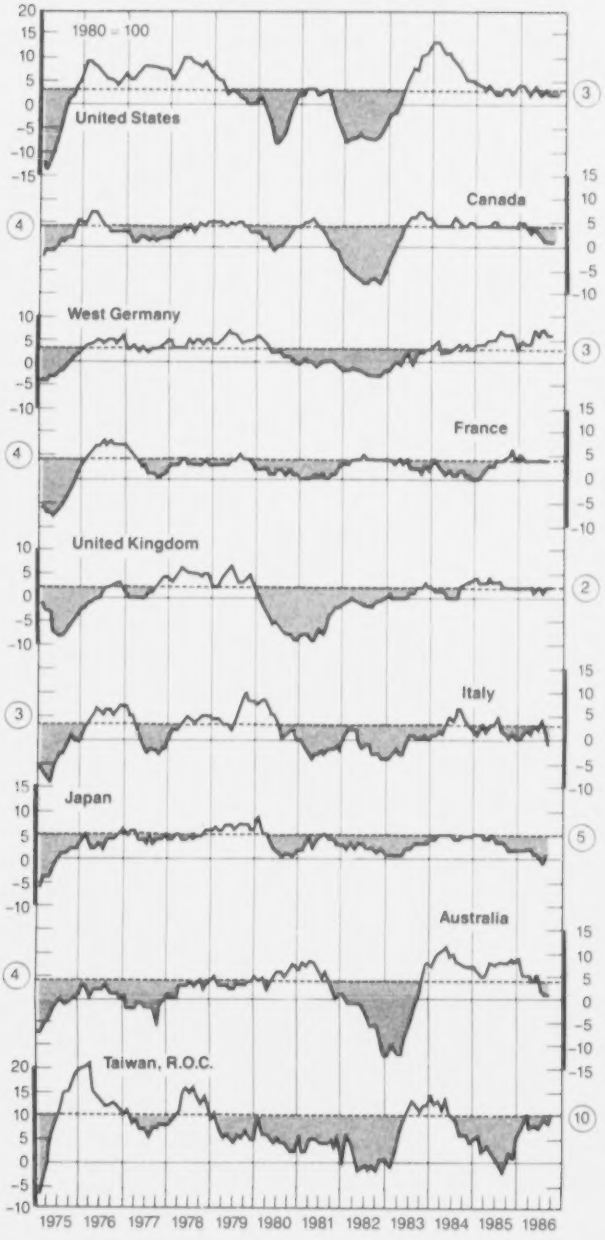
Leading Business Cycle Indexes



Sources: CIBCR and The Conference Board

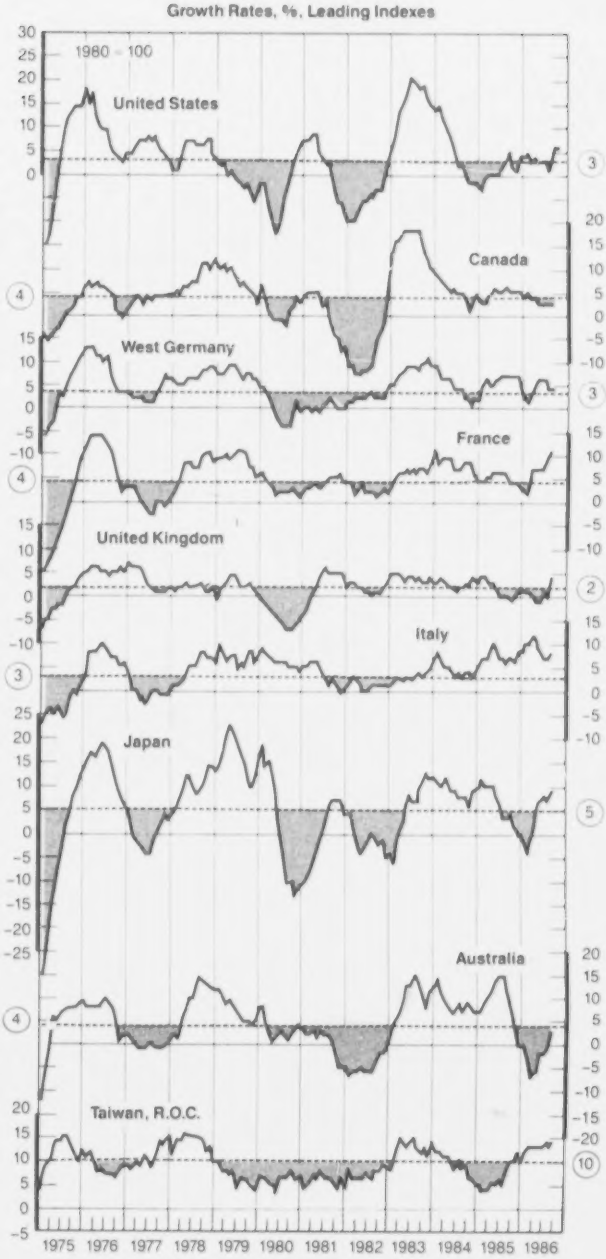
Where We Are

Growth Rates, %, Performance Indexes



Where We're Headed

Growth Rates, %, Leading Indexes



Note: Horizontal dashed lines are average rates for 1969-79 in the index and in Real GNP

Sources: CIBCR and The Conference Board

PROSPECTS FOR GROWTH IN U.S. EXPORTS: BEST IN TEN YEARS

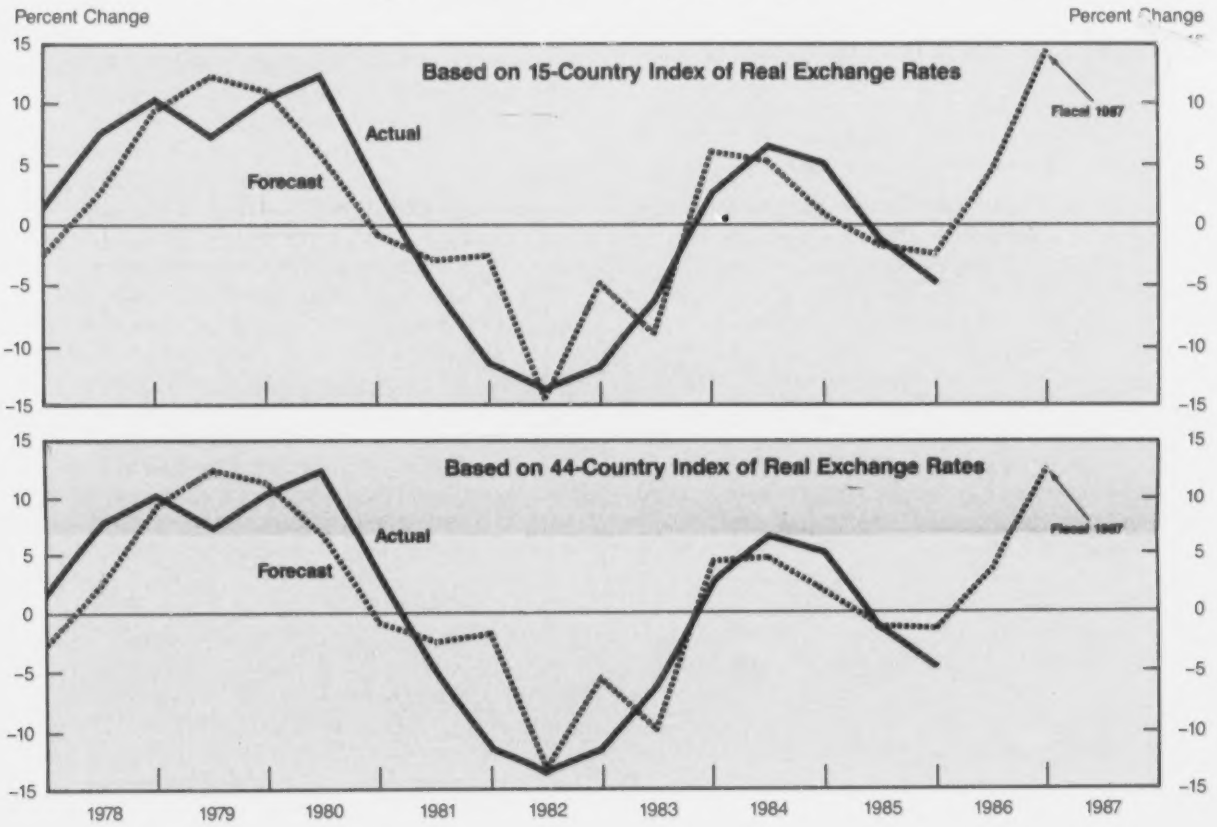
The imbalance between U.S. exports and imports has widened dramatically in recent years. At the start of the economic expansion in late 1982 the trade deficit (goods and services) was about $15 billion (annual rate). Since then imports have skyrocketed by about $150 billion, while our exports have increased by only $40 billion. The result is a worrisome deficit of some $125 billion.

The steep increase in imports in 1983 and 1984 was doubtless tied to the substantial economic recovery in the U.S. during that period. Real GNP grew by 3.5 percent in 1983 and 6.5 percent in 1984. In contrast, growth in real output in the European community was 1.2 percent in 1983 and 2.1 percent in 1984. In the developing economies output growth amounted to 0.4 percent and 2.1 percent in the same years. This anemic growth outside the U.S. thwarted the growth of U.S. exports, and the very fast expansion here created a large demand for foreign goods.

The sharp rise in the foreign exchange value of the U.S. dollar from the early 1980s through the start of 1985 also blunted the physical growth of U.S. exports and stimulated imports. According to the widely-cited Federal Reserve Board's 10-country exchange rate index, the dollar rose close to 80 percent from 1980 to the first quarter of 1985. During the same period, export prices rose 14 percent, while import prices fell 1 percent.

Since then there has been a substantial reversal in the dollar exchange rate. The 10-country dollar exchange in-

Forecast and Actual Changes in Real Volume of U.S. Exports of Manufactured Goods



Source: Center for International Business Cycle Research.

dex dropped about one-third and import prices, excluding oil, have begun to rise much more rapidly than export prices. These changes enhance the competitiveness of American goods in international markets. Not only that, but the *Scoreboard's* indexes of economic performance show that since 1984 the U.S. growth rate has slackened relative to the growth rates in most other countries. From these developments it would be easy to reach the rosy conclusion that the U.S. trade deficit should have fallen considerably in 1986. Alas, although there has been some decline in the deficit the past few months, the gap between exports and imports still remains very wide.

In an effort to account for the persistent deficit, numerous studies in recent months have sought to develop alternative measurements of the exchange value of the U.S. dollar. These alternative measures make use of wider coverage, different trade weights, and often involve deflation of the nominal exchange values to obtain real exchange rates. The studies recognize that trade with the major industrialized economies is becoming relatively less important. Countries in the Pacific Basin and Latin America are now playing a bigger role in U.S. trade. Moreover, deflation of the nominal exchange rates is needed to take account of inflation rate differentials between the U.S. and its important trade partners.

In this issue of the *Scoreboard* we use these exchange-rate series in conjunction with our own data on economic activity abroad to assess prospects for the growth in the real volume of U.S. manufactured goods exports in the months immediately ahead. Two alternative indexes of real dollar exchange rates constructed by Morgan Guaranty are used. One covers 15 major industrial countries; the other includes an additional 29 countries, or 44 countries in all. To guage demand from abroad, we use the *Scoreboard's* 8-country leading index, since this forecasts future changes in the growth of output in important industrial economies outside the U.S., and hence the demand for our exports.

Specifically, suppose we want to forecast the change in the volume of U.S. manufactured exports from the year ending last June to the year ending next June. The explanatory variables employed in this exercise are the growth rate in the 8-country leading index for June 1986 and the percentage change in the real foreign exchange value of the U.S. dollar as of January 1986. To forecast the calendar year change in exports, 1986 to 1987, the leading index growth rate would be for December 1986 and the exchange rate change would be for June 1986. This allows for roughly a six-month lead in the leading index and a twelve-month lead in the exchange rate, vis-a-vis exports.

Correlation coefficients (R^2) testing this relationship from 1978 through mid-1986 are fairly high, accounting for nearly three-fourths of the variability in the yearly changes in manufactured goods exports. Interestingly, it makes little difference which of the two exchange rate indexes is used. That is to say, when exchange rates are expressed in real terms, the inclusion of the smaller countries has little effect on the movement of the index. Between February 1985 and August 1986, for example, the 15-country real exchange rate index dropped 25 percent, while the 44-country index fell 21 percent.

The accompanying chart shows the percent changes in the actual and forecast volumes of U.S. manufactured exports from 1978 through fiscal 1987, and suggests that a major improvement in the huge trade deficit is on the way. The forecast derived by using the 8-country leading index along with the 15-country real dollar exchange index is for a 14.5 percent increase in the quantity of U.S. manufactured exports from fiscal 1986 to fiscal 1987. When the 44-country exchange rate index is used instead of the 15-country index it appears that a 12.5 percent rise is in the works.

U.S. exporters would be happy with either outcome and so too would American workers in the export industries. U.S. economic policymakers should also be able to manage a few smiles.

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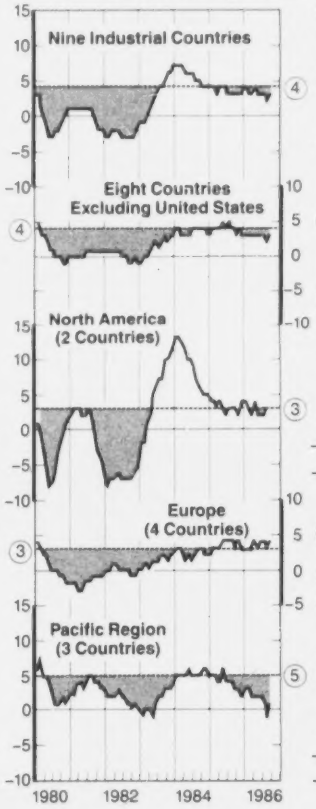
INDEXES, NINE COUNTRIES, 1985-86

		U.S.		Canada		West Germany		France		U.K.		Italy		Japan		Australia		Taiwan, R.O.C.	
		Indexes, 1980 = 100																	
		Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.
July	85	110	117	108	117	106	121	113	127	97	110	103	119	117	119	112	127	125	148
Aug.	85	111	117	109	118	106	122	113	128	97	111	102	120	117	118	112	128	124	148
Sept.	85	110	118	109	118	106	123	113	128	97	111	101	121	117	119	113	126	124	151
Oct.	85	110	117	109	119	107	123	114	127	97	111	101	122	117	120	114	125	126	152
Nov.	85	111	117	110	119	107	124	115	128	97	111	102	122	117	119	115	124	126	153
Dec.	85	112	118	110	119	106	123	114	128	97	112	101	124	117	118	115	123	127	156
Jan.	86	112	119	111	119	108	122	115	128	98	112	102	125	118	119	116	123	130	156
Feb.	86	112	120	111	121	108	122	115	128	98	112	102	126	118	116	115	122	132	158
Mar.	86	112	119	111	120	108	123	115	130	98	112	102	127	118	117	115	119	133	161
Apr.	86	113	120	112	121	110	125	116	132	98	111	102	129	118	120	116	120	132	162
May	86	112	120	111	121	109	126	116	133	98	111	104	130	118	121	116	120	133	164
June	86	112	120	111	121	111	127	116	133	98	111	103	129	118	123	117	122	133	165
July	86	113	120	111	122	111	126	117	134	98	112	104	129	118	124	116	122	135	167
Aug.	86	113	120	111	122	111	127	118	136	98	111	102	130	117	124	116	122	136	169
Sept.	86	114	123	112	122	112	127	118	138	99	113		132	118	126	116	125	136	170
Oct.	86	114	123															138	173
		Growth Rates, Percent																	
July	85	2	2	4	5	7	7	4	6	3	0	5	7	4	6	8	15	-1	6
Aug.	85	3	3	4	6	6	7	4	6	2	0	2	7	3	3	8	15	-2	5
Sept.	85	3	5	4	5	6	7	3	5	2	0	1	7	3	4	8	11	-1	8
Oct.	85	2	2	4	5	6	7	4	4	2	-1	0	7	2	4	8	7	2	10
Nov.	85	3	1	4	5	5	7	6	4	2	0	1	6	2	2	9	3	1	10
Dec.	85	4	4	5	5	3	4	4	3	2	1	0	8	2	0	7	0	2	12
Jan.	86	4	4	5	4	5	3	5	3	2	1	0	8	2	0	9	0	7	10
Feb.	86	3	5	4	5	4	1	4	2	2	1	1	10	2	-4	5	-2	8	12
Mar.	86	2	3	3	4	4	3	4	5	2	1	2	10	2	-2	5	-7	10	13
Apr.	86	4	4	4	4	7	5	4	7	2	0	1	12	2	2	4	-6	7	13
May	86	2	3	3	3	5	6	4	7	1	-1	3	11	1	4	4	-6	8	13
June	86	2	3	2	3	7	6	4	7	2	-1	2	9	1	7	5	-2	7	13
July	86	3	3	1	3	7	4	4	8	1	1	4	7	0	8	2	-2	9	13
Aug.	86	3	1	1	3	6	4	4	9	2	0	-1	7	-1	7	1	-1	9	14
Sept.	86	3	6	1	3	6	4	4	11	2	4		8	1	9	1	3	8	13
Oct.	86	3	6															10	14
		Ten Year Annual Growth Rate, Percent																	
1969-79		3	3	4	4	3	3	4	4	3	3	2	2	5	5	4	4	10	10

		9 Countries		8 Countries ex. U.S.		North America (2)		Europe (4)		Pacific Region (3)	
		Indexes, 1980 = 100									
		Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.
July	85	110	119	109	120	110	117	105	120	117	121
Aug.	85	110	119	109	120	110	117	105	121	116	120
Sept.	85	110	120	109	121	110	118	105	121	117	120
Oct.	85	110	120	110	121	110	117	105	121	117	121
Nov.	85	110	119	110	121	111	117	106	122	117	121
Dec.	85	111	120	110	121	112	118	106	122	117	120
Jan.	86	111	120	111	121	112	119	106	122	118	120
Feb.	86	111	120	111	120	112	120	106	122	118	118
Mar.	86	111	120	111	122	112	119	107	123	118	119
Apr.	86	112	122	112	123	113	120	108	124	118	121
May	86	112	122	112	124	112	120	108	125	118	122
June	86	112	123	112	125	112	120	108	125	118	124
July	86	112	123	112	125	113	120	109	125	118	125
Aug.	86	112	123	112	126	113	120	108	126	117	125
Sept.	86	113	125	112	127	113	122	109	128	118	127
		Growth Rates, Percent									
July	85	4	4	5	6	3	3	5	5	5	7
Aug.	85	4	4	4	5	3	3	4	5	4	5
Sept.	85	3	5	3	5	3	5	3	5	3	4
Oct.	85	3	4	3	5	2	3	4	4	3	5
Nov.	85	3	3	4	4	3	2	4	4	3	3
Dec.	85	3	3	3	3	4	4	3	4	2	1
Jan.	86	4	3	3	2	4	4	3	3	3	1
Feb.	86	3	2	3	1	3	5	3	3	3	-3
Mar.	86	3	2	3	2	2	3	3	4	2	-2
Apr.	86	4	4	3	4	4	4	4	5	2	1
May	86	3	4	3	5	2	3	3	6	2	4
June	86	3	4	3	5	2	3	4	5	2	6
July	86	3	4	3	5	2	3	4	5	1	7
Aug.	86	2	4	2	6	3	1	3	5	-1	6
Sept.	86	3	7	3	7	3	5	4	7	1	8
		Ten Year Annual Growth Rate, Percent									
1969-79		4	4	4	4	3	3	3	3	5	5

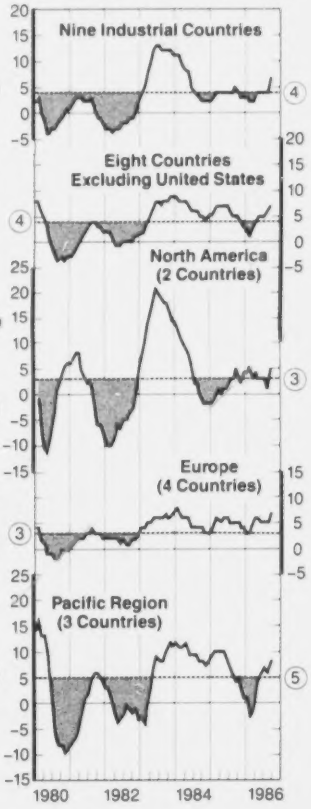
Where We Are

Growth Rates, %, Performing Indexes



Where We're Headed

Growth Rates, %, Leading Indexes



Note: Horizontal dashed lines are average growth rates for 1969-79 in the index and in real GNP
Sources: CIBCR and The Conference Board

R4105-6A
2/26/87

A Monthly Report from The Conference Board

INTERNATIONAL ECONOMIC SCOREBOARD

The Conference Board

JANUARY, 1987

SUMMARY

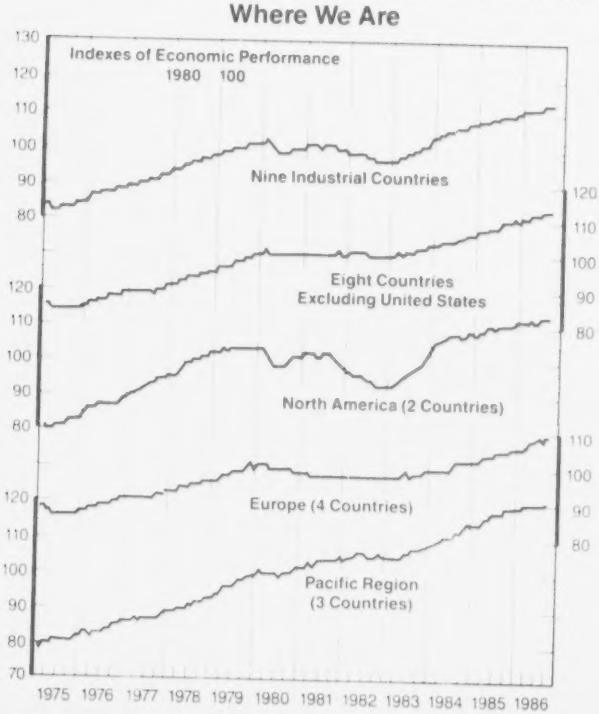
Good wishes for the New Year is the message from the leading indicators for the nine major industrial countries. Growth rates of 6 percent or above are reported by the leaders for the United States, West Germany, France, Italy, Japan, Australia and Taiwan, R.O.C. In Canada and the United Kingdom the growth rates are positive but modest. The 9-country leading index growth rate has hit 6 percent for two months in a row, a more vigorous rise than at any time during the past two years.

The economic performance indexes, which usually lag a few months to a year or so behind the leading indexes, reflect very sluggish expansions in Canada, the United Kingdom, Italy and Japan. Growth in these measures of output, employment and income remain modest in the United States, West Germany, France and Australia. Taiwan is well ahead of the rest with a growth rate of 11 percent in its performance index, matching the rate first observed about a year ago in its leading index.

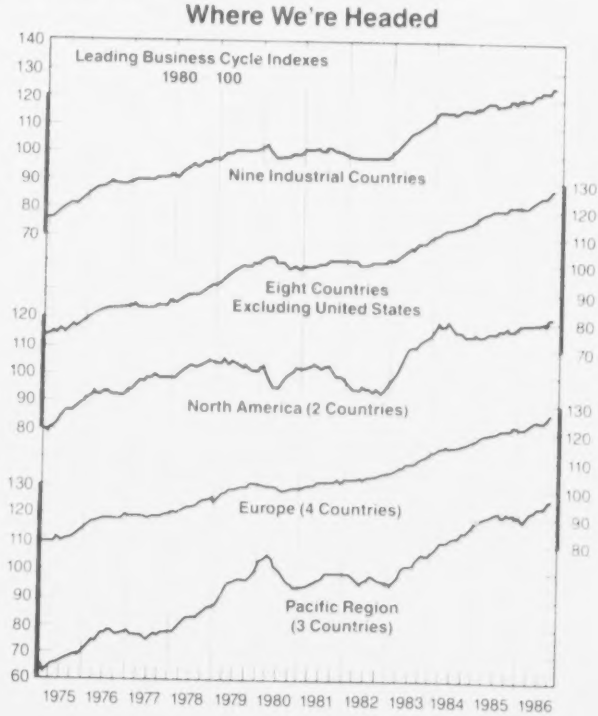
	Ten-year Growth	Indexes of Economic Performance Growth Rates*			Leading Business Cycle Indexes Growth Rates*				
	Rate 1969-79	6 mos. ago	3 mos. ago	Latest month	6 mos. ago	3 mos. ago	Latest month	Current Reading on the Cycle	Latest Month Covered
	annual rates, percent								
9 countries	4	4	3	3	4	4	6	Expansion continuing	Oct.
8 countries ex. U.S.	4	3	3	3	4	5	6	Expansion continuing	Oct.
North America (2)	3	4	2	2	3	3	5	Expansion continuing	Oct.
Europe (4)	3	4	4	4	5	5	6	Expansion continuing	Oct.
Pacific Region (3)	5	2	1	2	2	6	6	Expansion stalling, leaders strong	Oct.
United States	3	2	2	2	2	1	7	Expansion continuing	Nov.
Canada	4	4	1	1	4	3	4	Expansion stalling	Oct.
West Germany	3	5	6	4	6	4	6	Expansion continuing	Nov.
France	4	4	4	4	7	8	9	Expansion continuing, leaders strong	Oct.
United Kingdom	2	2	1	1	0	1	1	Expansion stalling	Oct.
Italy	3	1	3	−1	10	9	8	Expansion stalling, leaders strong	Aug./Sept.
Japan	5	1	1	1	2	5	6	Expansion stalling, leaders strong	Oct.
Australia	4	4	2	3	−1	3	9	Expansion stalling, leaders strong	Oct.
Taiwan, R.O.C.	10	8	10	11	13	14	15	Expansion continuing, leaders strong	Nov.

* Ratio of current month's index to average index over the preceding 12 months, expressed as a compound annual rate.

Where We Are


Indexes of Economic Performance
1980 100
Nine Industrial Countries
Eight Countries Excluding United States
North America (2 Countries)
Europe (4 Countries)
Pacific Region (3 Countries)
1975 1976 1977 1978 1979 1980 1981 1982 1983 1984 1985 1986

Where We're Headed


Leading Business Cycle Indexes
1980 100
Nine Industrial Countries
Eight Countries Excluding United States
North America (2 Countries)
Europe (4 Countries)
Pacific Region (3 Countries)
1975 1976 1977 1978 1979 1980 1981 1982 1983 1984 1985 1986

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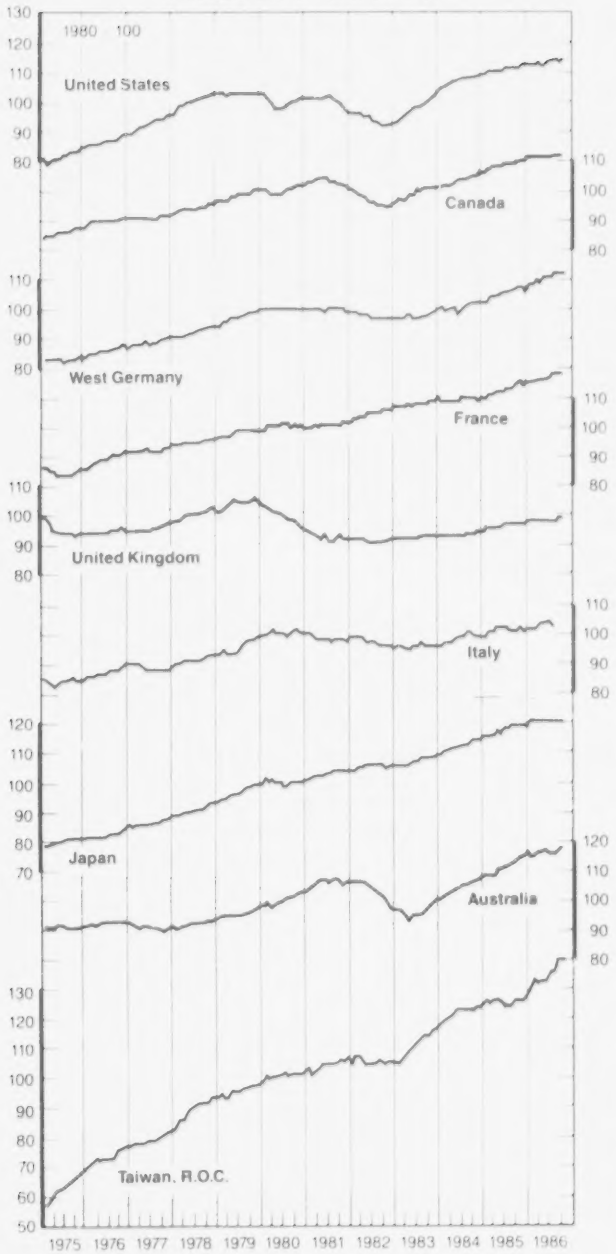
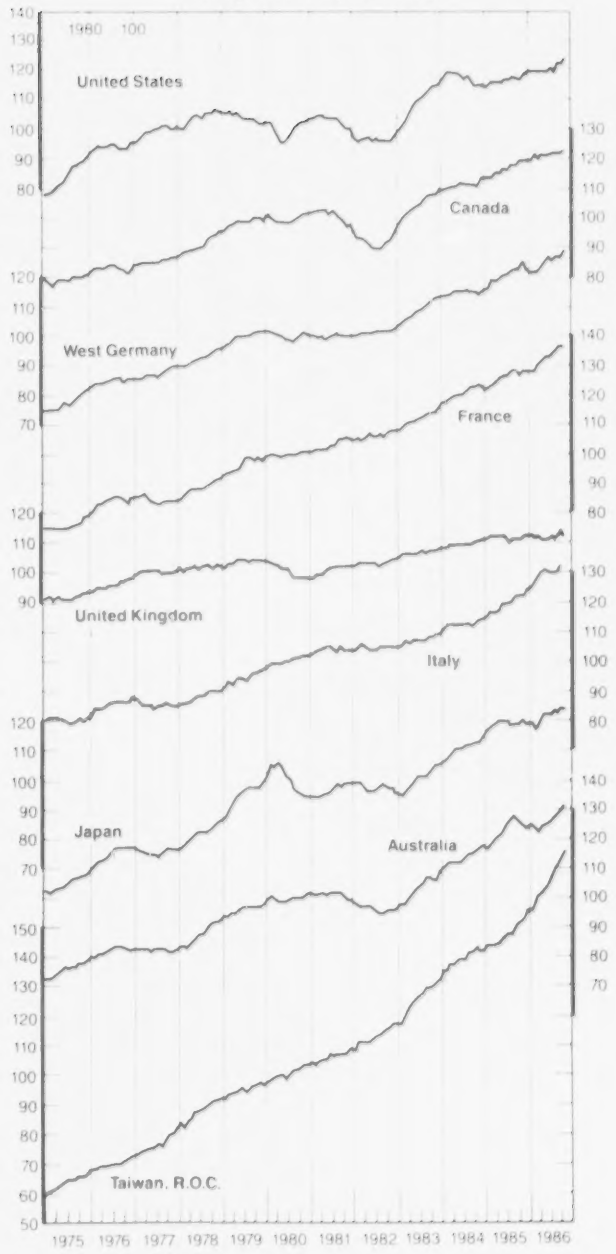
Where We Are

Indexes of Economic Performance



Where We're Headed

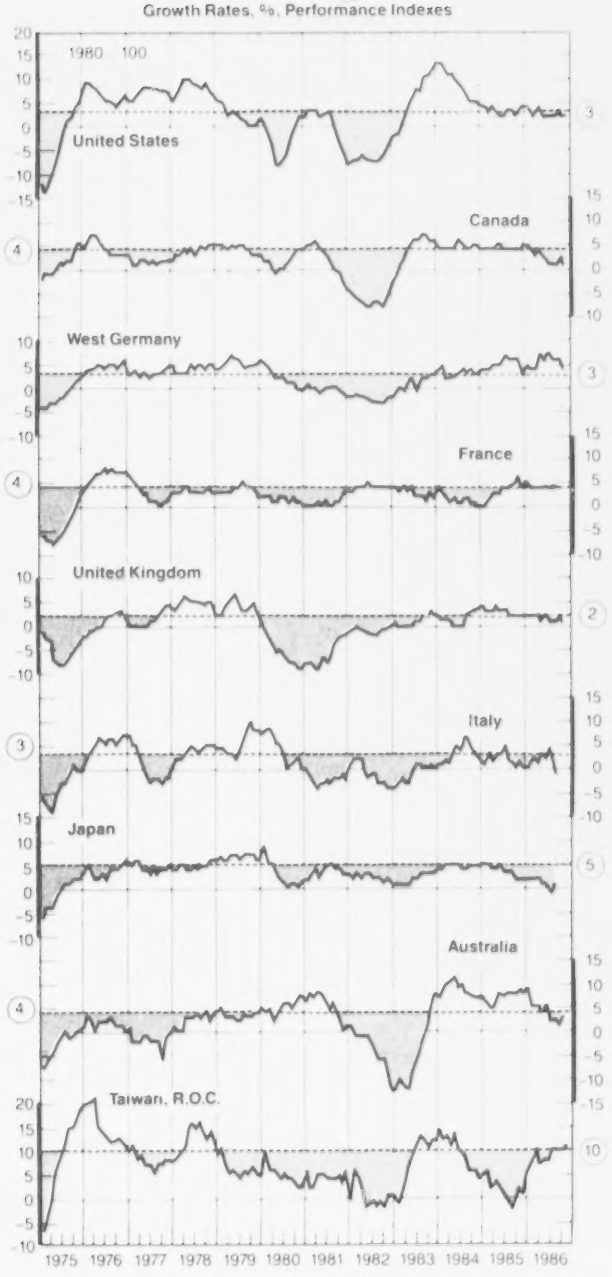
Leading Business Cycle Indexes



Sources: CIBCR and The Conference Board

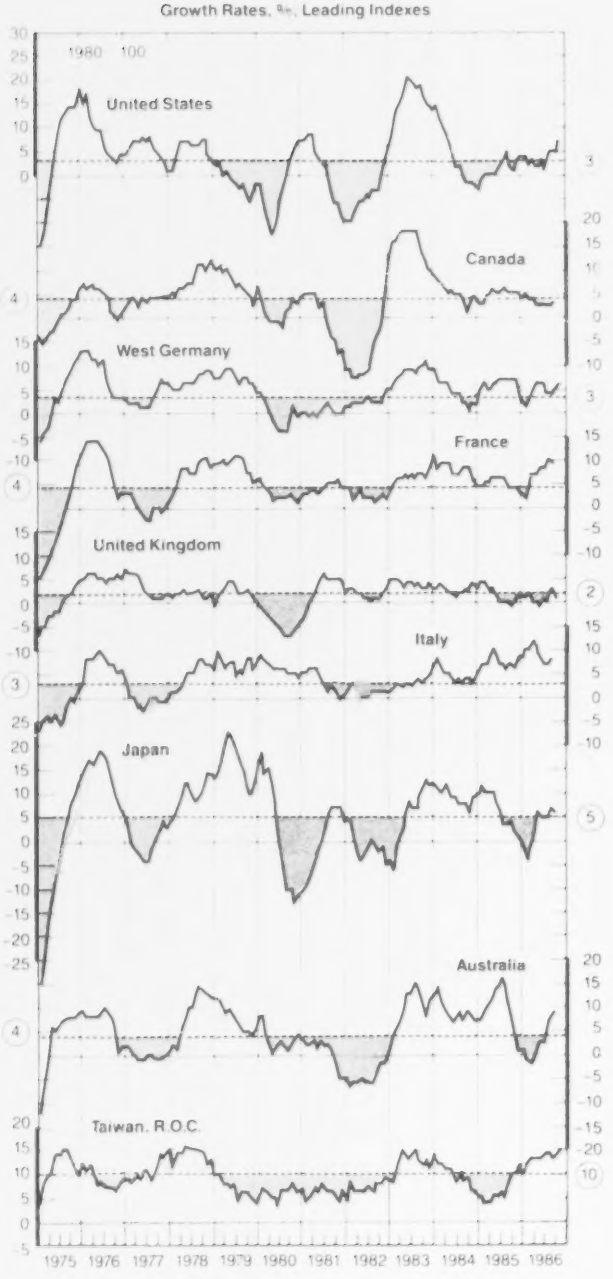
Where We Are

Growth Rates, %, Performance Indexes



Where We're Headed

Growth Rates, %, Leading Indexes



Note: Horizontal dashed lines are average rates for 1969-79 in the index and in Real GNP.

Sources: CIBCR and The Conference Board

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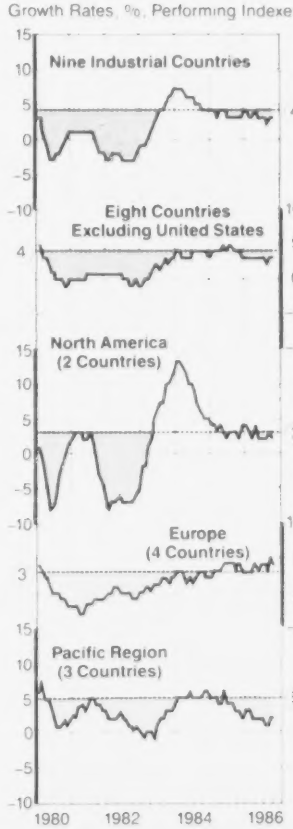
INDEXES, NINE COUNTRIES, 1985-86

		U.S.		Canada		West Germany		France		U.K.		Italy		Japan		Australia		Taiwan, R.O.C.	
		Indexes, 1980 = 100																	
		Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.
July	85	110	117	108	117	106	121	113	127	97	111	103	119	118	119	112	126	125	148
Aug.	85	111	117	109	118	106	122	113	128	97	111	102	120	118	118	112	128	124	148
Sept.	85	110	118	109	118	106	123	113	128	97	111	101	121	119	119	113	127	125	151
Oct.	85	110	117	109	119	107	123	114	127	97	111	101	122	119	120	114	125	126	153
Nov.	85	111	117	110	119	107	124	115	128	97	111	102	122	119	119	115	124	126	154
Dec.	85	112	118	110	119	106	123	114	128	97	112	101	124	119	118	115	123	127	156
Jan.	86	112	119	111	119	108	122	115	128	98	112	102	125	119	119	116	124	130	156
Feb.	86	112	119	111	121	108	122	115	128	98	112	102	126	120	116	115	123	132	159
Mar.	86	112	119	111	120	108	123	115	130	98	112	102	127	120	117	115	122	133	161
Apr.	86	113	119	112	121	110	125	116	132	98	111	102	129	120	120	116	124	132	162
May	86	112	119	111	121	109	126	116	133	98	111	104	130	120	122	116	124	133	164
June	86	112	119	111	121	111	127	116	133	98	111	103	129	120	122	117	126	133	166
July	86	113	120	111	122	111	126	117	134	98	112	104	129	120	123	116	127	136	168
Aug.	86	113	119	111	122	111	127	118	135	98	111	102	130	120	122	116	128	136	170
Sept.	86	114	122	112	122	112	127	118	137	99	114		132	120	124	116	129	138	171
Oct.	86	113	122	112	123	112	128	118	137	99	112			120	124	118	131	140	174
Nov.	86	114	124			112	129											140	176
		Growth Rates, Percent																	
July	85	2	2	4	5	7	7	4	6	3	0	5	7	5	6	8	15	-1	6
Aug.	85	3	3	4	6	6	7	4	6	2	0	2	7	4	3	8	16	-2	5
Sept.	85	3	5	4	5	6	7	3	5	2	0	1	7	3	4	8	11	-1	8
Oct.	85	2	2	4	5	6	7	4	4	2	-1	0	7	3	4	8	7	2	10
Nov.	85	3	1	4	5	5	7	6	4	2	0	1	6	2	2	9	4	1	10
Dec.	85	4	3	5	5	3	4	4	3	2	1	0	8	2	1	7	1	2	12
Jan.	86	4	4	5	4	5	3	5	3	2	1	0	8	2	0	9	1	6	10
Feb.	86	3	4	4	5	4	1	4	2	2	1	1	10	2	-4	5	-1	8	12
Mar.	86	2	2	3	4	4	3	4	5	2	2	2	10	2	-2	5	-2	10	13
Apr.	86	4	3	4	4	7	5	4	7	2	0	1	12	1	2	4	-1	7	13
May	86	2	2	3	3	5	6	4	7	1	0	3	11	1	4	4	0	8	13
June	86	2	2	2	3	7	6	4	7	2	-1	2	9	2	6	5	3	8	13
July	86	2	3	1	3	7	4	4	8	1	1	4	7	1	5	2	3	10	14
Aug.	86	2	1	1	3	6	4	4	8	1	0	-1	7	1	5	2	5	10	14
Sept.	86	3	5	2	3	6	4	4	10	2	3		8	2	7	1	7	10	13
Oct.	86	2	5	1	4	5	5	4	9	1	1			1	6	3	9	11	14
Nov.	86	2	7			4	6											11	15
		Ten Year Annual Growth Rate, Percent																	
1969-79		3	3	4	4	3	3	4	4	3	3	2	2	5	5	4	4	10	10

		9 Countries		8 Countries ex. U.S.		North America (2)		Europe (4)		Pacific Region (3)	
		Indexes, 1980 = 100									
		Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.
July	85	110	119	110	120	110	117	105	120	118	121
Aug.	85	110	119	110	120	110	117	105	121	118	120
Sept.	85	110	120	110	121	110	118	105	121	118	121
Oct.	85	110	120	110	121	110	117	105	121	118	121
Nov.	85	111	119	111	121	111	117	106	122	119	121
Dec.	85	111	120	110	121	112	118	106	122	119	120
Jan.	86	112	120	111	121	112	119	106	122	119	120
Feb.	86	112	120	111	121	112	119	106	122	119	118
Mar.	86	112	120	111	122	112	119	107	123	120	119
Apr.	86	112	122	112	123	113	119	108	124	120	122
May	86	112	122	112	124	112	119	108	125	120	123
June	86	112	122	112	125	112	120	108	125	120	124
July	86	113	123	113	125	113	120	109	125	120	124
Aug.	86	113	123	113	125	113	119	108	126	120	124
Sept.	86	113	125	113	126	113	122	109	127	120	126
Oct.	86	113	125	114	127	113	122	109	128	121	126
		Growth Rates, Percent									
July	85	4	4	5	6	3	3	5	5	5	7
Aug.	85	4	4	4	5	3	3	4	5	4	5
Sept.	85	3	5	4	5	3	5	3	5	4	5
Oct.	85	3	4	4	5	2	3	4	4	3	5
Nov.	85	3	3	4	4	3	2	4	4	3	3
Dec.	85	3	3	3	3	4	3	3	4	3	1
Jan.	86	4	3	3	2	4	4	3	3	3	1
Feb.	86	3	2	3	1	3	4	3	3	3	-3
Mar.	86	3	2	3	2	2	2	3	4	2	-2
Apr.	86	4	4	3	4	4	3	4	5	2	2
May	86	3	4	3	5	2	2	3	6	2	4
June	86	3	4	3	5	2	2	4	5	2	6
July	86	3	4	3	5	2	3	4	5	1	6
Aug.	86	2	3	2	5	2	1	3	5	1	5
Sept.	86	3	6	3	6	3	5	5	6	2	7
Oct.	86	3	6	3	6	2	5	4	6	2	6
		Ten Year Annual Growth Rate, Percent									
1969-79		4	4	4	4	3	3	3	3	5	5

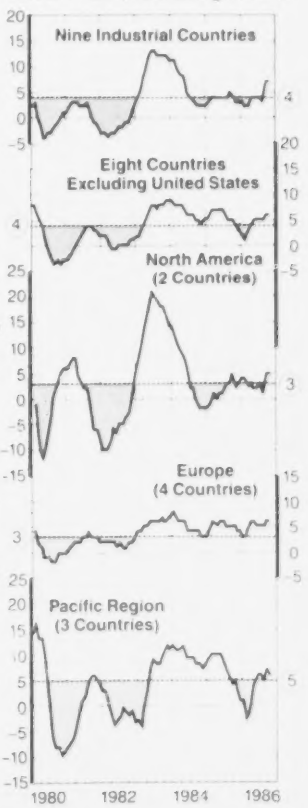
Where We Are

Growth Rates, %, Performing Indexes



Where We're Headed

Growth Rates, %, Leading Indexes



Note: Horizontal dashed lines are average growth rates for 1969-79 in the index and in real GNP.

Sources: CIBCR and The Conference Board

R4105-6 A
3/27/87

A Monthly Report from The Conference Board

INTERNATIONAL ECONOMIC SCOREBOARD

The Conference Board

FEBRUARY, 1987

SUMMARY

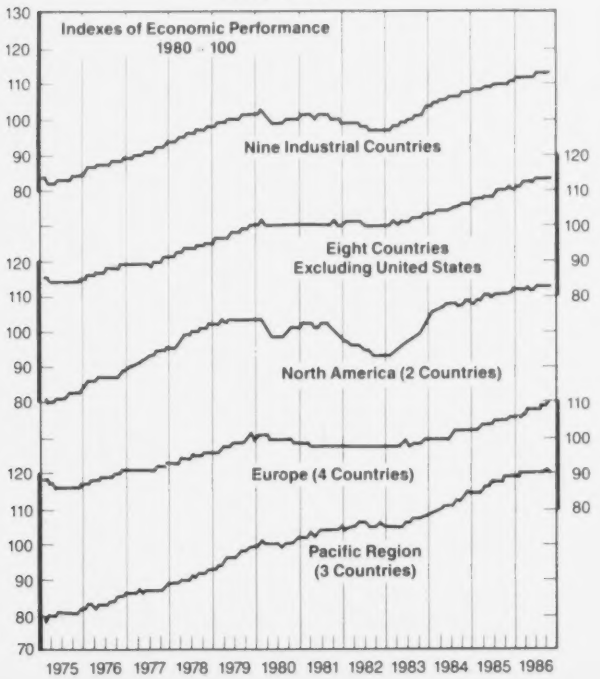
An upbeat mood continues to prevail among the leading business-cycle indexes for the major industrial countries. The latest growth rates in these early-moving indicators range from 1 and 2 percent in the United Kingdom and Canada to 5 percent or above in the United States, Japan, West Germany, Italy, Australia, France and Taiwan R.O.C. Hence they are projecting very modest growth ahead for two countries but better-than-average growth in the other seven. The leading indexes for all nine countries combined turn in an average growth rate of 4 percent in November.

The latest figures for the economic performance indexes yield a less exuberant picture for most countries, with the notable exception of Taiwan where the performance index growth rate has climbed to 13 percent. Expansion has continued to stall in Australia, Japan, Canada and Italy, with growth rates in the 0 to 2 percent range. Growth rates at or slightly above their long run average levels are recorded for the United States, the United Kingdom, West Germany and France. The nine-country performance index rose at a modest 2 percent rate in November. The more favorable picture for the leaders points toward some strengthening in the performance indexes in the months ahead.

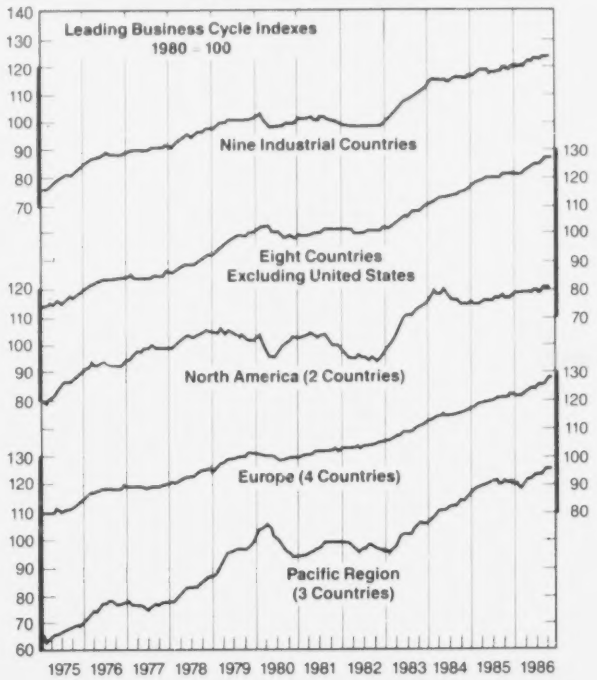
	Ten-year Growth Rate 1969-79	Indexes of Economic Performance Growth Rates* 6 mos. ago	3 mos. ago	Latest month	Leading Business Cycle Indexes Growth Rates* 6 mos. ago	3 mos. ago	Latest month	Current Reading on the Cycle	Latest Month Covered
	annual rates, percent								
9 countries	4	3	2	2	4	3	4	Expansion continuing	Nov.
8 countries ex. U.S.	4	3	2	2	5	5	6	Expansion continuing	Nov.
North America (2)	3	2	2	2	2	1	2	Expansion continuing	Nov.
Europe (4)	3	3	3	4	6	5	6	Expansion continuing	Nov.
Pacific Region (3)	5	2	1	0	4	5	6	Expansion stalling, leaders strong	Nov.
United States	3	2	3	3	2	4	5	Expansion continuing	Dec.
Canada	4	3	1	1	3	3	2	Expansion stalling	Nov.
West Germany	3	5	6	4	6	4	6	Expansion continuing	Nov.
France	4	4	4	5	7	8	10	Expansion continuing, leaders strong	Nov./Oct.
United Kingdom	2	1	2	3	0	1	1	Expansion continuing, leaders weak	Nov.
Italy	3	2	1	2	11	7	6	Expansion stalling, leaders strong	Oct./Nov.
Japan	5	2	2	1	4	5	5	Expansion stalling, leaders strong	Dec./Nov.
Australia	4	4	2	0	0	5	8	Expansion stalling, leaders strong	Nov.
Taiwan, R.O.C.	10	8	10	13	13	13	14	Expansion continuing, leaders strong	Dec.

* Ratio of current month's index to average index over the preceding 12 months, expressed as a compound annual rate.

Where We Are


Indexes of Economic Performance
1980 = 100
Nine Industrial Countries
Eight Countries Excluding United States
North America (2 Countries)
Europe (4 Countries)
Pacific Region (3 Countries)
1975 1976 1977 1978 1979 1980 1981 1982 1983 1984 1985 1986

Where We're Headed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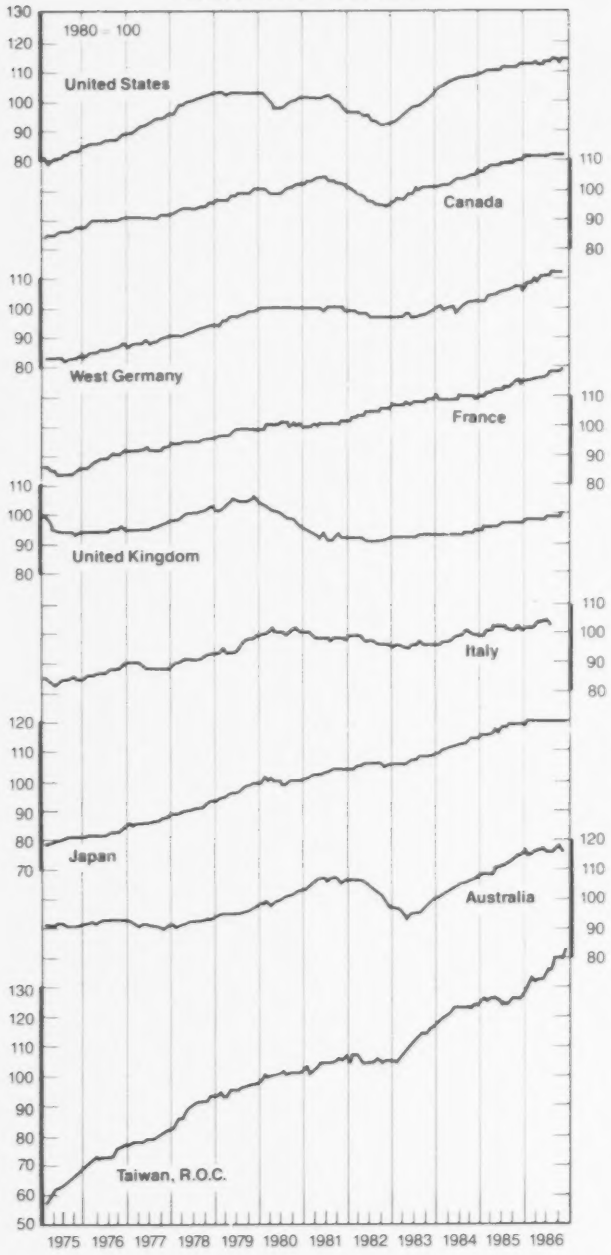
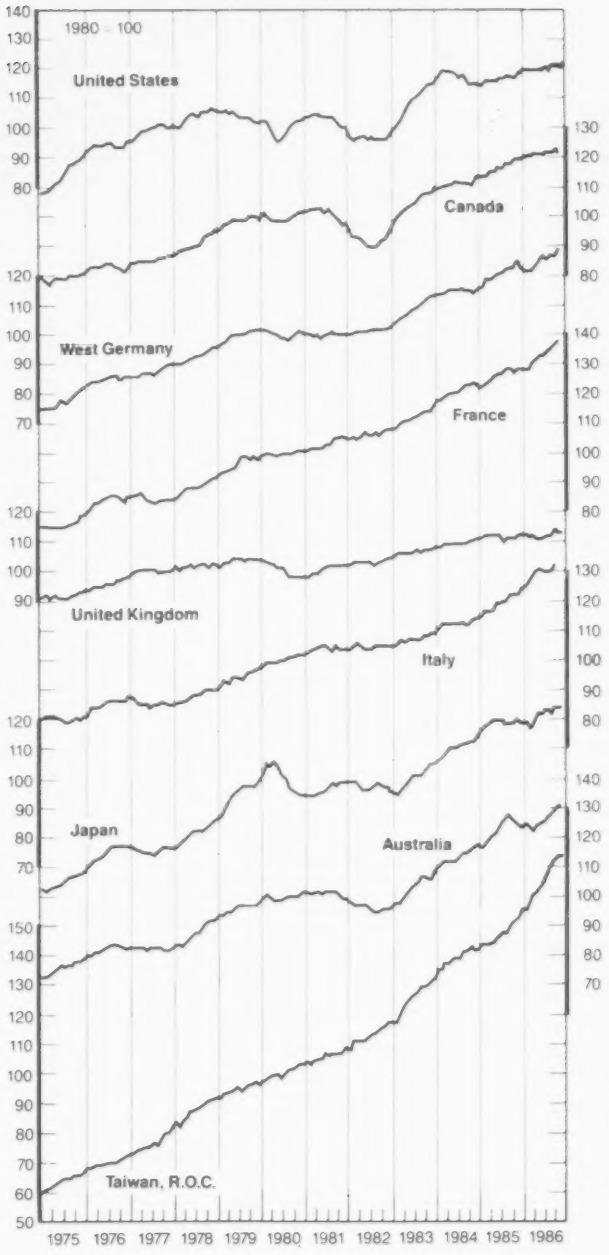
Where We Are

Indexes of Economic Performance



Where We're Headed

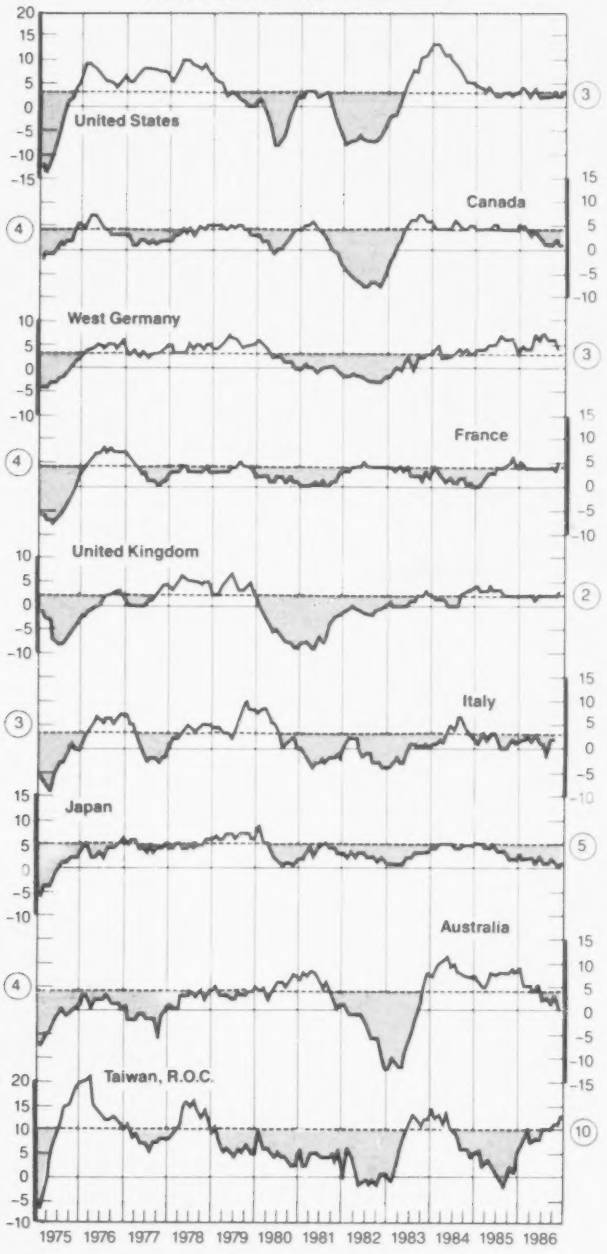
Leading Business Cycle Indexes



Sources: CIBCR and The Conference Board

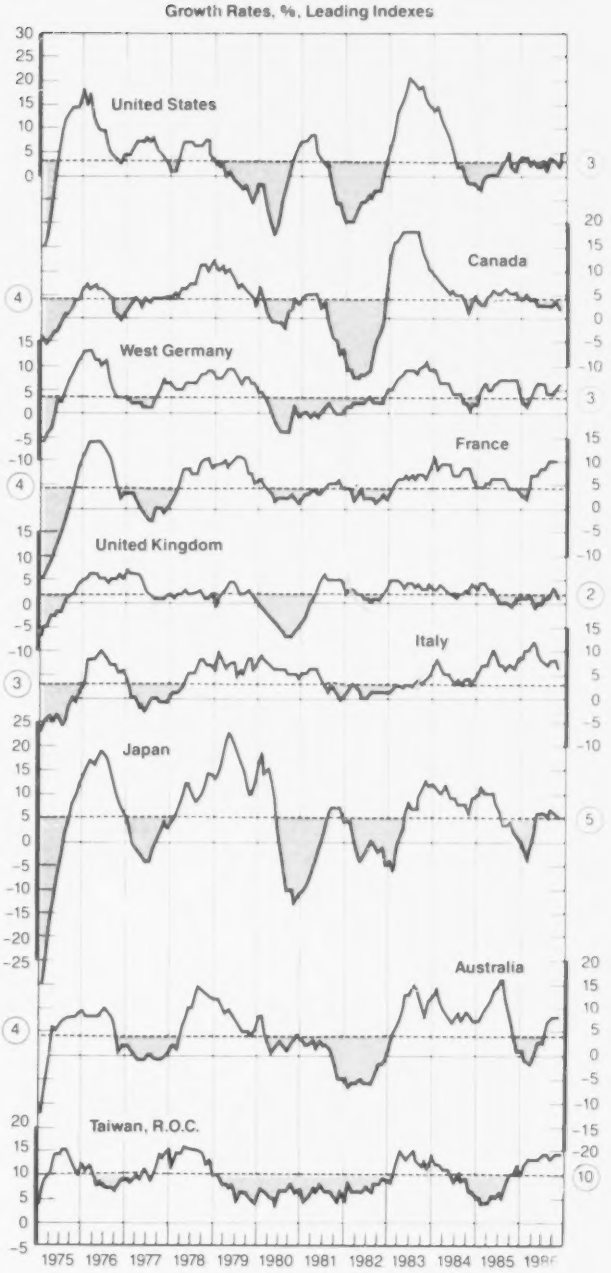
Where We Are

Growth Rates, %, Performance Indexes



Where We're Headed

Growth Rates, %, Leading Indexes



Note: Horizontal dashed lines are average rates for 1969-79 in the index and in Real GNP.

Sources: CIBCR and The Conference Board

STOCK PRICES AND THE LEADING INDEXES

The early-1987 boom in stock prices, both here and abroad, has been making big headlines. Since stock prices are a leading economic indicator, one part of the story is that the bull market in stocks is signalling further expansion ahead for the world business cycle. Not all forecasters agree, however. They argue that the run-up in stock prices is strictly a financial phenomenon with little significance for economic activity.

One way to test this question is to ask whether the leading indexes look as strong when stock prices are omitted as when they are included. The answer is: Almost. The calculations for the United States, West Germany and Japan for recent years are shown in the accompanying chart. Results for earlier years back to the 1950s are much the same.

The latest growth rates in the composite leading indexes calculated with and without stock prices are:

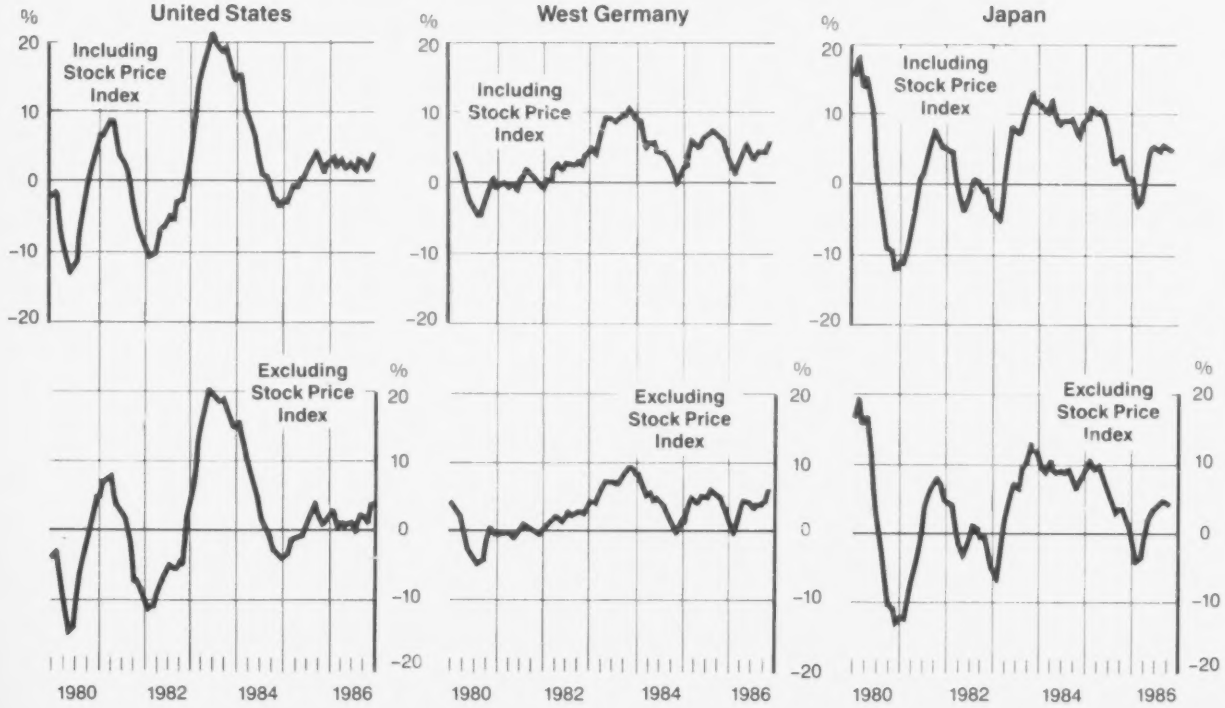
	Growth Rate with Stock Price Index	
Leading Index for	*included*	*excluded*
United States	4.5%	4.0%
West Germany	6.0%	5.9%
Japan	5.3%	4.3%

The latest growth rates in the leading indexes for the U.S. and Germany are virtually unaffected by the removal of stock prices. The index for Japan is less optimistic when stock prices are omitted, but nevertheless is rising faster than at any time since the middle of 1985.

Clearly, looking over the record of the past few years, the leading indexes told pretty much the same story whether or not stock prices are allowed to contribute to it. Part of the explanation doubtless is that stock prices are influenced by some of the other ten or eleven factors included in the leading indexes, such as corporate earnings and new orders. Although interest rates are not represented directly in the leading indexes, elements that are influenced by interest rates, such as housing starts and capital investment commitments are included. Hence the influence of interest rates on stock prices is indirectly represented. In these ways the leading indexes excluding stock prices do provide economic support for what has happened to stock prices. But economic causation runs both ways, and buoyancy or depression in the stock market can affect other leading indicators as well.

These results do not mean, in our judgement, that stock prices should be excluded from the leading indexes. They have economic effects of their own on both business confidence and purchasing power. These effects should not be neglected. Besides, stock prices have a longer and better record as a leading indicator than most others. Discounting them, as in this exercise, helps to prove a point, but it doesn't argue that we should ignore what the stock market is saying.

Growth Rates in Leading Indexes With and Without Stock Prices



THE INTERNATIONAL ECONOMIC INDICATOR SYSTEM

This publication is designed to help readers monitor the ups and downs of the business cycle around the world. To this end, two types of index are shown for each country: an index of economic performance and a leading index. The economic performance indexes are composites of such series as real GNP, industrial production, employment and sales—what analysts call "coincident" series, because they *define* the business cycle.

The leading indexes are composites of such series as new orders, construction contracts, corporate profits and stock prices—indicators that usually anticipate changes in production and employment by several months. Thus the indexes of economic performance tell us the current status of the business cycle, i.e., where we are, while the leading indexes tell us where the economy is headed.

Experience has shown that when the leading index begins to rise faster, it is a fairly safe rule that the economy will soon begin to rise faster too—typically after three or four months. When the leading index begins to rise more slowly or to decline, the economy is likely to follow suit shortly thereafter. (For details, see "What the Leading Indicators Indicate," *Across the Board,* April 1980 and *Business Cycles, Inflation and Forecasting,* Ballinger Publishing Co., 1983.) Considerable variation in the length of lead is to be expected, however. Constant monitoring is needed to make effective use of the system and get early warnings of recessions and recoveries, changes in foreign trade flows, and new inflationary trends.

The indexes for the seven major industrial nations were developed by Geoffrey H. Moore and Philip A. Klein, and are maintained by the Center for International Business Cycle Research at the Columbia Business School. (The U.S. indexes used here differ slightly from the indexes reported monthly by the U.S. Dept. of Commerce.) To facilitate analysis the indexes are adjusted so their long-run growth rates, 1969-79, the equal to those in real GNP in the country concerned. These growth rates are shown at the bottom of the table on the back page and by horizontal lines on the right panel of the charts on pages 2 and 3.

For More Information

To find out more about this indicator system and the availability of detailed data for each country please address inquiries to:

Center for International Business Cycle Research
Columbia Business School
New York, New York 10027
Telephone: 212-280-2916

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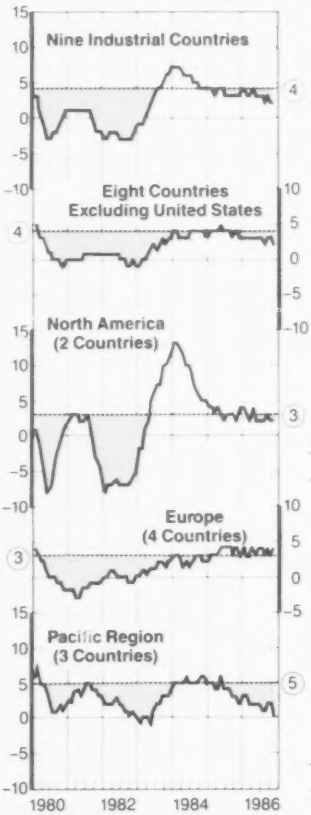
INDEXES, NINE COUNTRIES, 1985-86

		U.S.		Canada		West Germany		France		U.K.		Italy		Japan		Australia		Taiwan, R.O.C.	
		Indexes, 1980 = 100																	
		Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.
Oct.	85	110	117	109	119	107	123	114	127	97	111	101	122	119	120	114	125	126	153
Nov.	85	111	117	110	119	107	124	115	128	97	111	102	122	119	119	115	124	126	154
Dec.	85	112	118	110	119	106	123	114	128	97	112	102	124	119	118	115	123	127	156
Jan.	86	112	119	111	120	108	122	115	128	98	112	102	125	119	118	116	124	130	156
Feb.	86	112	119	111	120	108	122	115	128	98	112	103	127	120	116	115	123	132	159
Mar.	86	112	119	111	120	108	123	115	130	98	112	104	128	120	117	115	122	133	161
Apr.	86	113	119	112	121	110	125	116	132	98	111	103	130	120	120	116	12	132	162
May	86	112	119	111	121	109	126	116	133	98	111	104	130	120	122	116	124	133	164
June	86	112	119	111	121	111	127	116	133	98	111	103	130	120	123	117	126	133	166
July	86	113	120	111	122	111	126	117	134	98	112	103	130	120	123	116	127	136	168
Aug.	86	113	119	111	122	111	127	118	135	99	112	102	131	120	122	116	128	136	170
Sept.	86	114	121	112	122	112	127	118	137	99	114	104	132	120	124	116	129	138	171
Oct.	86	113	121	112	123	112	128	118	138	99	113	104	133	120	124	118	130	140	174
Nov.	86	114	120	112	122	112	129	119		100	113		133	120	124	116	131	140	176
Dec.	86	114	122											120				143	177
		Growth Rates, Percent																	
Oct.	85	2	2	4	5	6	7	4	4	2	–1	0	7	3	4	8	7	2	10
Nov.	85	3	1	4	5	5	7	6	4	2	0	2	6	2	2	9	4	1	10
Dec.	85	3	3	5	4	3	4	4	3	2	1	1	8	2	1	7	1	2	12
Jan.	86	4	4	5	4	5	3	5	3	2	1	2	8	3	0	9	1	6	10
Feb.	86	3	4	4	5	4	1	4	2	2	1	2	10	2	–4	5	–1	8	12
Mar.	86	2	2	3	4	4	3	4	5	2	2	3	10	2	–2	5	–2	10	13
Apr.	86	4	3	4	4	7	5	4	7	2	–1	2	12	2	2	4	–1	7	13
May	86	2	2	3	3	5	6	4	7	1	0	3	11	1	4	4	0	8	13
June	86	2	2	2	3	7	6	4	7	2	0	1	9	2	6	5	3	8	13
July	86	2	3	1	3	7	4	4	8	2	1	1	8	1	6	2	3	10	14
Aug.	86	2	1	1	3	6	4	4	8	2	1	–2	7	1	5	2	5	10	14
Sept.	86	3	4	2	3	6	4	4	10	2	3	2	8	2	7	1	7	10	13
Oct.	86	2	3	1	4	5	5	3	10	2	2	2	8	1	6	3	8	11	14
Nov.	86	2	2	1	2	4	6	5		3	1		6	0	5	0	8	11	14
Dec.	86	3	5											1				13	14
		Ten Year Annual Growth Rate, Percent																	
1969-79		3	3	4	4	3	3	4	4	3	3	2	2	5	5	4	4	10	10

		9 Countries		8 Countries ex. U.S.		North America (2)		Europe (4)		Pacific Region (3)	
		Indexes, 1980 = 100									
		Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.
Oct.	85	110	120	110	121	110	117	105	121	118	121
Nov.	85	111	119	111	121	111	117	106	122	119	121
Dec.	85	111	120	110	121	112	118	106	122	119	120
Jan.	86	112	120	111	121	112	119	106	122	119	120
Feb.	86	112	120	111	121	112	119	106	122	120	118
Mar.	86	112	120	112	122	112	119	107	123	120	119
Apr.	86	112	122	112	123	113	119	108	124	120	122
May	86	112	122	112	124	112	119	108	125	120	123
June	86	112	123	112	125	112	120	108	125	120	124
July	86	113	123	113	125	113	120	108	126	120	124
Aug.	86	113	123	113	125	113	119	108	126	120	124
Sept.	86	113	124	113	127	113	121	109	127	120	126
Oct.	86	113	124	113	127	113	121	109	128	121	126
Nov.	86	113	124	113	127	113	120	110	128	120	126
		Growth Rates, Percent									
Oct.	85	3	4	4	5	2	3	4	4	3	5
Nov.	85	3	3	4	4	3	2	4	4	3	3
Dec.	85	3	3	3	3	4	3	3	4	3	1
Jan.	86	4	3	4	2	4	4	4	3	3	1
Feb.	86	3	2	3	1	3	4	3	3	3	–3
Mar.	86	3	2	3	2	2	2	3	4	2	–2
Apr.	86	4	4	3	4	4	3	4	5	2	2
May	86	3	4	3	5	2	2	3	6	2	4
June	86	3	4	3	5	2	2	4	5	2	6
July	86	3	4	3	5	2	3	4	5	1	6
Aug.	86	2	3	2	5	2	1	3	5	1	5
Sept.	86	3	6	3	5	3	4	4	6	2	7
Oct.	86	2	5	3	6	2	3	3	6	2	6
Nov.	86	2	4	2	6	2	2	4	6	0	6
		Ten Year Annual Growth Rate, Percent									
1969-79		4	4	4	4	3	3	3	3	5	5

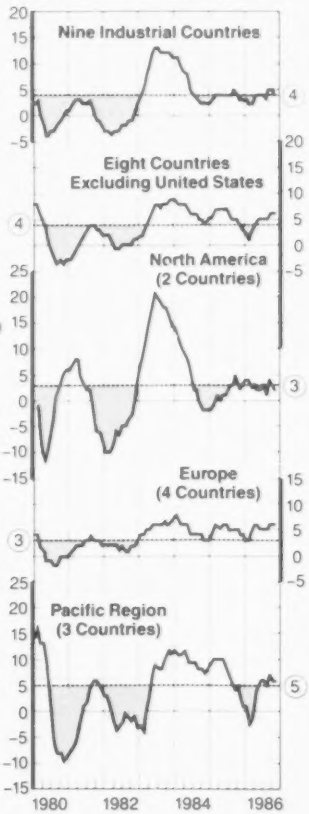
Where We Are

Growth Rates, %, Performing Indexes



Where We're Headed

Growth Rates, %, Leading Indexes



Note: Horizontal dashed lines are average growth rates for 1969-79 in the index and in real GNP.
Sources: CIBCR and The Conference Board

R4105-6 A
4/15/87

A Monthly Report from The Conference Board

INTERNATIONAL ECONOMIC SCOREBOARD

The Conference Board

MARCH, 1987

SUMMARY

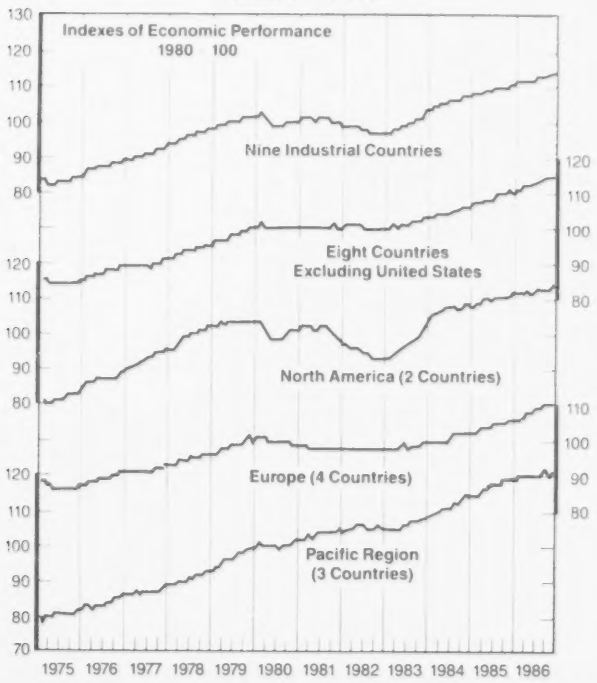
Australia and Taiwan, R.O.C., are now vying for top place in the growth rate competition among the leading indexes for the 9 major industrial countries. Both registered 13 percent annual rates in the latest reading. Japan, France and Italy are not far behind, with rates of 11, 9 and 7 percent, respectively. Still chugging along at a modest pace are West Germany, the United Kingdom, Canada and the United States, with 4, 3, 2 and 1 percent growth rates in their leading indexes. To some extent, the 1 percent figure for the U.S. reflects year-end tax planning. For all 9 countries combined the latest growth rate is 5 percent, nicely ahead of the 3 percent of a year ago.

According to the economic performance indexes, expansion prevails in every country. Growth rates range from 1 to 4 percent except in Taiwan, R.O.C., where it is 9 percent. Continuing expansion is the message, both from the indexes that measure where we are as well as those that tell where we're headed.

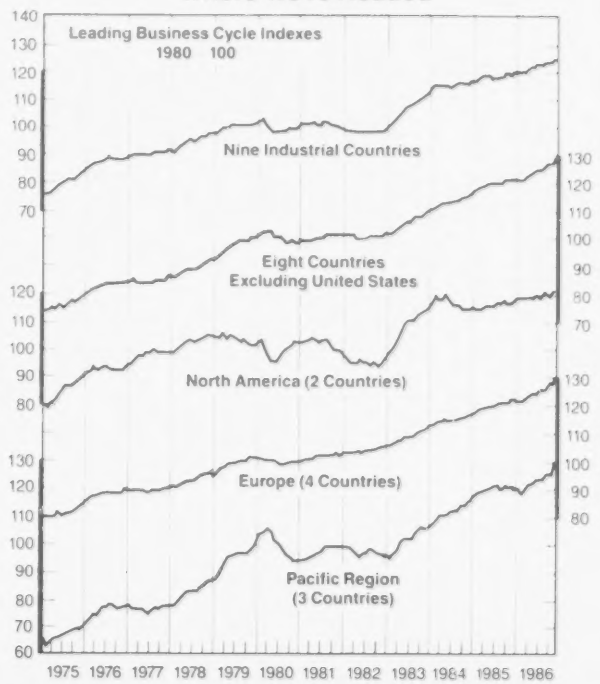
	Ten-year Growth	Indexes of Economic Performance Growth Rates*			Leading Business Cycle Indexes Growth Rates*				
	Rate 1969-79	6 mos. ago	3 mos. ago	Latest month	6 mos. ago	3 mos. ago	Latest month	Current Reading on the Cycle	Latest Month Covered
	annual rates, percent								
9 countries	4	3	3	3	4	5	5	Expansion continuing	Dec.
8 countries ex. U.S.	4	3	3	3	5	6	7	Expansion continuing	Dec.
North America (2)	3	2	2	3	2	3	2	Expansion continuing	Dec.
Europe (4)	3	4	4	3	5	6	6	Expansion continuing	Dec.
Pacific Region (3)	5	3	2	2	6	7	11	Expansion continuing, leaders strong	Dec.
United States	3	2	2	2	2	2	1	Expansion continuing	Jan.
Canada	4	2	1	2	2	3	2	Expansion continuing	Dec.
West Germany	3	7	6	4	5	4	4	Expansion continuing	Dec.
France	4	4	5	4	8	10	9	Expansion continuing, leaders strong	Dec./Jan.
United Kingdom	2	2	2	2	0	3	3	Expansion continuing	Dec.
Italy	3	2	2	2	9	8	7	Expansion continuing, leaders strong	Oct./Dec.
Japan	5	2	2	1	6	6	11	Expansion continuing, leaders strong	Dec.
Australia	4	5	1	3	3	7	13	Expansion continuing, leaders strong	Dec.
Taiwan, R.O.C.	10	10	11	9	14	14	13	Expansion continuing, leaders strong	Jan.

* Ratio of current month's index to average index over the preceding 12 months, expressed as a compound annual rate.

Where We Are


Indexes of Economic Performance
1980 = 100
Nine Industrial Countries
Eight Countries Excluding United States
North America (2 Countries)
Europe (4 Countries)
Pacific Region (3 Countries)
1975 1976 1977 1978 1979 1980 1981 1982 1983 1984 1985 1986

Where We're Headed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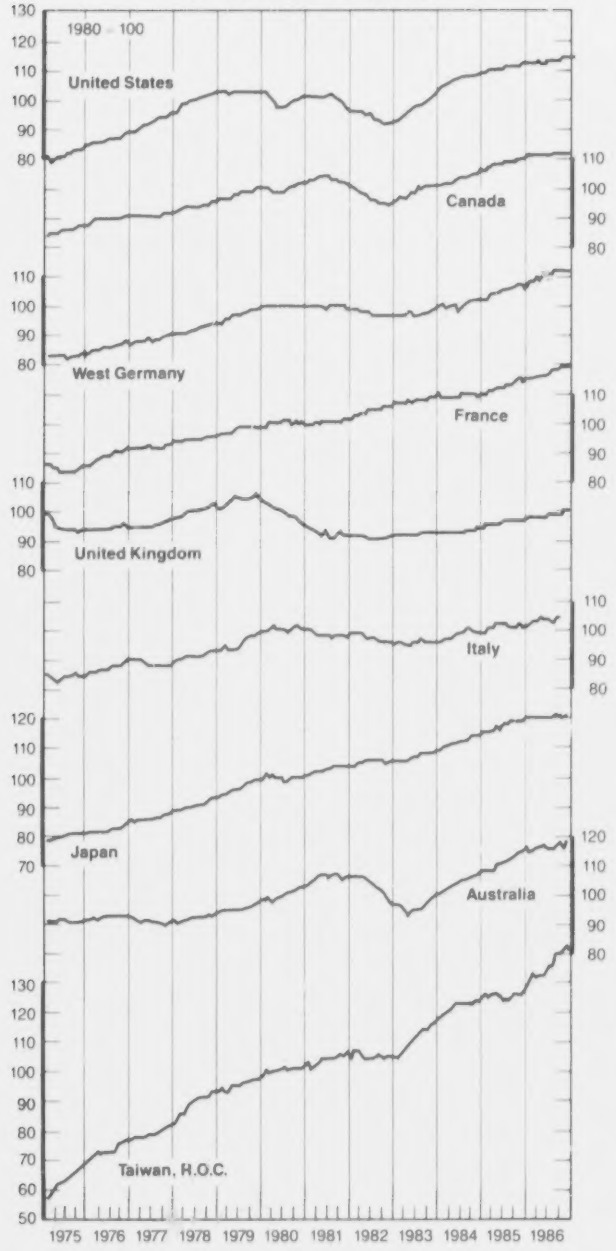
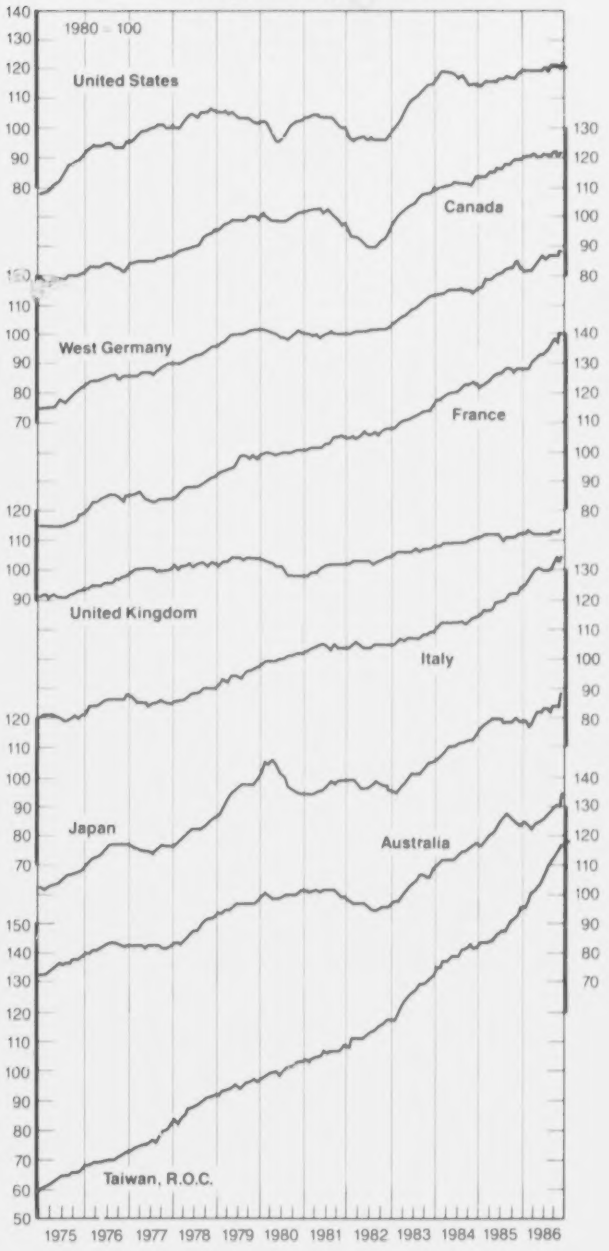
Where We Are

Indexes of Economic Performance



Where We're Headed

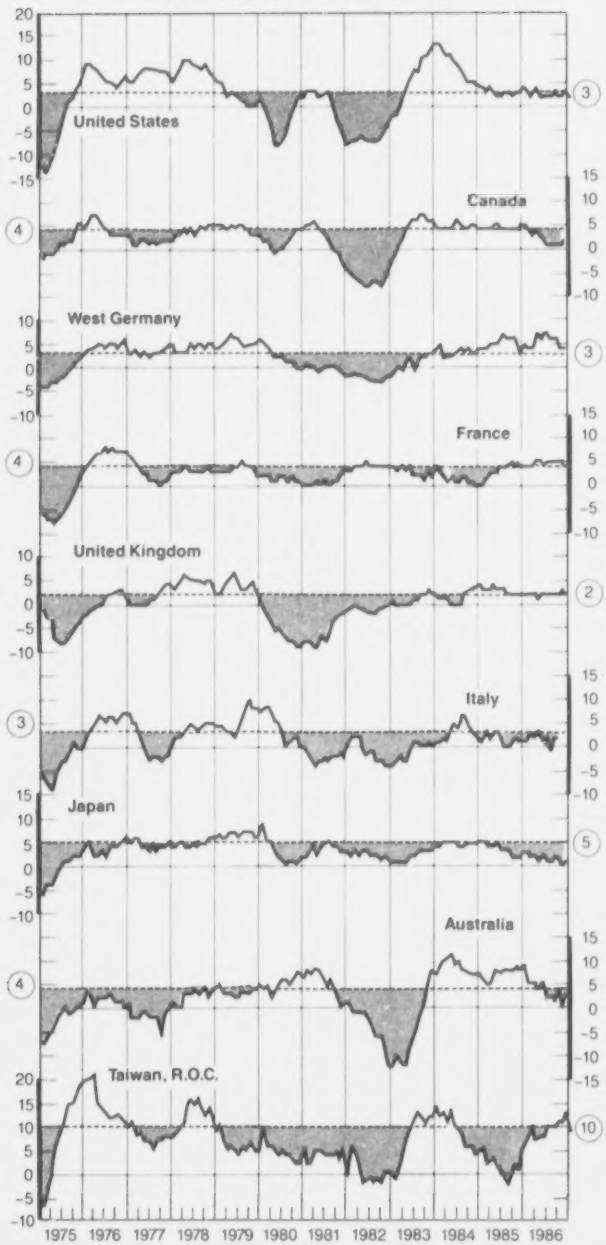
Leading Business Cycle Indexes



Sources: CIBCR and The Conference Board

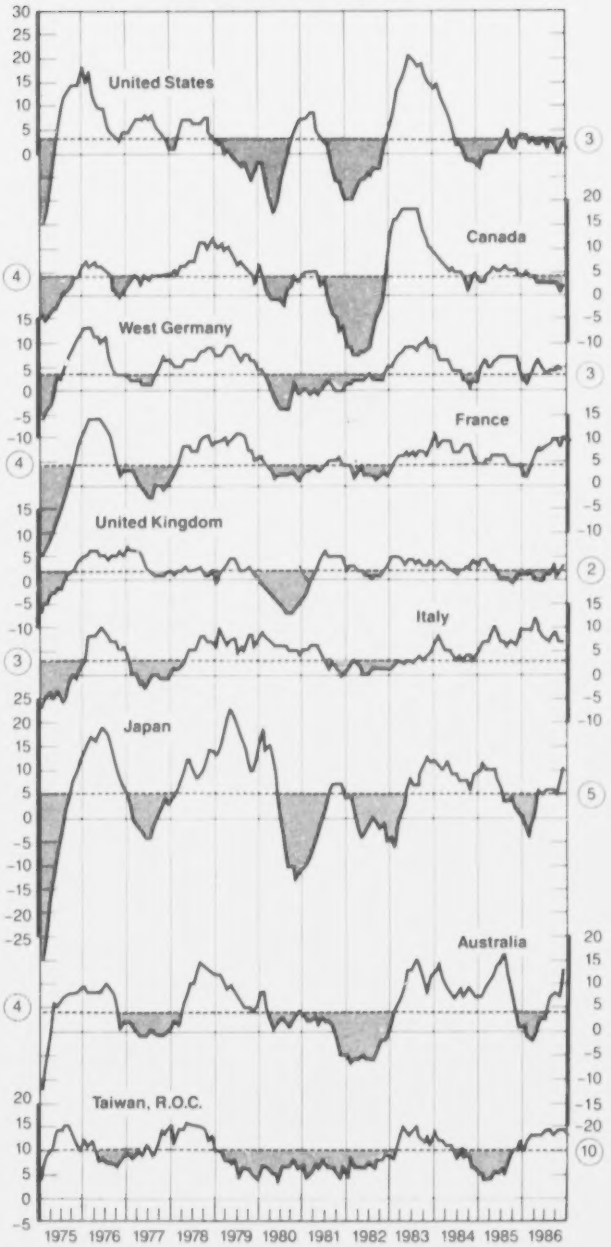
Where We Are

Growth Rates, %, Performance Indexes



Where We're Headed

Growth Rates, %, Leading Indexes



Note: Horizontal dashed lines are average rates for 1969-79 in the index and in Real GNP

Sources: CIBCR and The Conference Board

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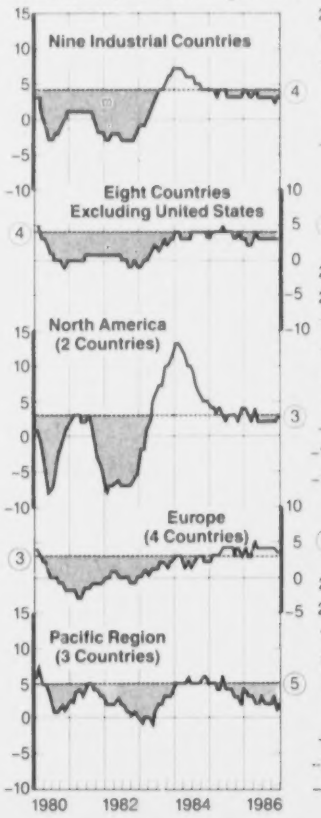
INDEXES, NINE COUNTRIES, 1985-87

		U.S.		Canada		West Germany		France		U.K.		Italy		Japan		Australia		Taiwan, R.O.C.	
		Indexes, 1980 = 100																	
		Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.
Oct.	85	110	117	109	119	107	123	113	127	97	111	101	122	119	120	114	125	126	153
Nov.	85	111	117	110	119	107	124	114	128	97	111	102	122	119	119	115	124	126	154
Dec.	85	112	118	110	119	106	123	114	128	97	112	102	124	119	118	115	123	127	156
Jan.	86	112	119	111	119	107	122	114	128	98	112	102	126	120	119	117	124	130	156
Feb.	86	112	119	111	120	108	122	115	128	98	112	102	127	120	116	115	123	131	159
Mar.	86	112	118	111	120	108	123	115	130	98	113	103	128	120	117	115	122	133	161
Apr.	86	113	119	112	121	110	125	116	132	98	112	103	130	120	120	116	124	132	162
May	86	112	119	112	120	109	126	116	133	98	112	104	131	120	122	116	124	133	164
June	86	112	119	111	120	111	126	117	133	98	112	103	130	120	122	117	126	133	166
July	86	113	120	111	121	111	126	118	135	98	112	103	130	120	122	116	127	135	168
Aug.	86	113	119	111	121	111	127	118	135	99	112	102	131	120	122	116	128	136	170
Sept.	86	113	121	112	122	112	127	118	137	99	113	104	132	121	124	116	129	138	171
Oct.	86	113	120	112	122	112	127	119	138	99	113	104	134	121	124	118	130	140	173
Nov.	86	114	119	112	121	112	128	119	137	100	113		133	120	124	116	130	141	176
Dec.	86	114	121	112	122	112	128	119	140	100	114		134	121	128	118	134	143	177
Jan.	87	114	120						140									142	178
		Growth Rates, Percent																	
Oct.	85	2	2	4	5	6	7	4	4	2	-1	1	7	3	4	8	7	2	9
Nov.	85	3	1	4	5	5	7	5	4	2	0	2	6	2	2	9	4	1	9
Dec.	85	3	3	5	4	3	4	4	4	2	1	1	9	2	1	7	1	2	11
Jan.	86	4	4	5	4	5	3	4	2	2	1	1	9	3	0	10	1	6	10
Feb.	86	3	4	4	5	4	1	4	2	2	1	2	9	3	-4	5	-1	8	12
Mar.	86	2	2	3	3	4	3	4	4	2	2	3	9	2	-2	5	-2	10	13
Apr.	86	4	3	4	4	7	5	5	7	2	0	2	12	2	2	4	-1	7	13
May	86	2	2	3	3	5	6	5	8	1	0	3	11	2	4	4	0	8	13
June	86	2	2	2	2	7	5	4	7	2	0	1	9	2	6	5	3	8	13
July	86	2	2	1	3	7	3	5	8	2	1	2	8	1	5	2	3	10	14
Aug.	86	2	1	1	3	6	4	5	8	2	1	-1	7	1	5	2	5	10	14
Sept.	86	3	3	1	3	6	4	5	10	2	3	2	8	2	6	1	7	10	13
Oct.	86	2	2	1	3	5	4	5	10	2	1	2	9	2	6	4	8	11	11
Nov.	86	2	0	1	1	4	5	5	8	3	2		7	0	5	0	7	11	14
Dec.	86	3	2	2	2	4	4	4	10	2	3		7	1	11	3	13	13	14
Jan.	87	2	1						9									9	13
		Ten Year Annual Growth Rate, Percent																	
1969-79		3	3	4	4	3	3	4	4	3	3	2	2	5	5	4	4	10	10

		9 Countries		8 Countries ex. U.S.		North America (2)		Europe (4)		Pacific Region (3)	
		Indexes, 1980 = 100									
		Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.
Oct.	85	110	120	110	121	110	117	105	121	118	121
Nov.	85	111	119	110	121	111	117	106	122	119	120
Dec.	85	111	120	110	121	112	118	106	122	119	120
Jan.	86	112	120	111	121	112	119	106	122	120	120
Feb.	86	112	120	111	121	112	119	106	122	120	118
Mar.	86	112	120	112	122	112	118	107	123	120	119
Apr.	86	112	122	112	123	113	119	108	124	120	122
May	86	112	122	112	124	112	119	108	125	120	123
June	86	112	122	113	125	112	120	108	125	120	124
July	86	113	123	113	125	113	120	109	126	120	124
Aug.	86	113	123	113	125	113	119	109	126	120	124
Sept.	86	113	124	114	126	113	121	109	127	121	126
Oct.	86	114	124	114	127	113	120	109	128	122	126
Nov.	86	114	124	114	127	113	120	110	128	120	126
Dec.	86	114	125	114	129	114	121	110	129	121	130
		Growth Rates, Percent									
Oct.	85	3	4	3	5	2	3	4	4	3	5
Nov.	85	3	3	4	4	3	2	4	4	3	3
Dec.	85	3	3	3	3	4	3	3	4	3	1
Jan.	86	4	3	4	2	4	4	4	3	4	1
Feb.	86	3	2	3	1	3	4	3	3	3	-3
Mar.	86	3	2	3	2	2	2	3	4	3	-2
Apr.	86	4	4	4	4	4	3	5	5	2	2
May	86	3	4	3	5	2	2	4	6	2	4
June	86	3	4	3	5	2	2	4	5	3	6
July	86	3	4	3	5	2	3	4	5	2	5
Aug.	86	3	3	3	5	2	1	4	5	2	5
Sept.	86	3	5	3	6	2	3	4	6	2	7
Oct.	86	3	4	3	6	2	2	4	6	3	6
Nov.	86	2	3	3	5	2	0	4	5	1	6
Dec.	86	3	5	3	7	3	2	3	6	2	11
		Ten Year Annual Growth Rate, Percent									
1969-79		4	4	4	4	3	3	3	3	5	5

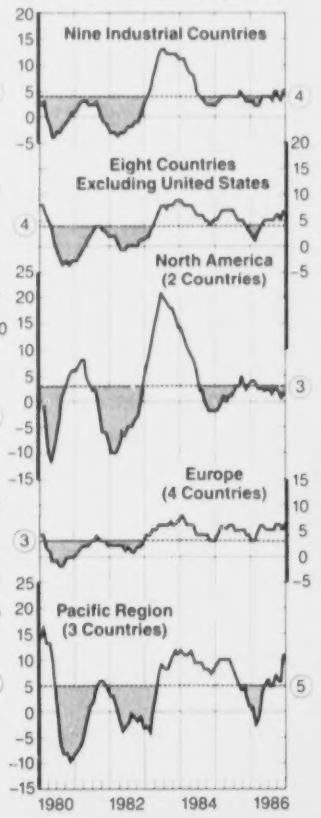
Where We Are

Growth Rates, %, Performing Indexes



Where We're Headed

Growth Rates, %, Leading Indexes



Note: Horizontal dashed lines are average growth rates for 1969-79 in the index and in real GNP
Sources: CIBCR and The Conference Board

R4105-6 A

A Monthly Report from The Conference Board

INTERNATIONAL ECONOMIC SCOREBOARD

The Conference Board

APRIL, 1987

SUMMARY

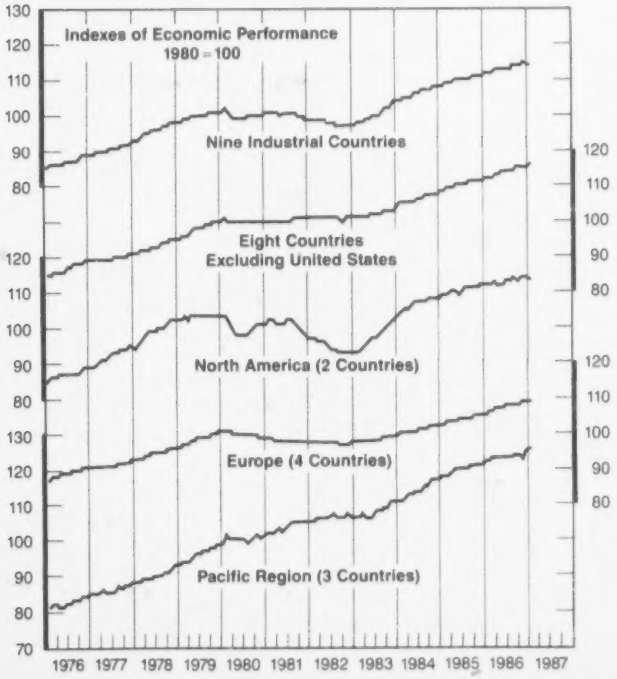
Although economic expansion continues at a respectable but uninspiring pace in the industrial world, for most countries the leading indexes are pointing to a strengthening in the months ahead. In Europe the signals given by these forward-looking indicators are humdrum, especially in West Germany. In North America the prospective improvement is noticeable but modest. In the Pacific Region, however, the leading indexes look positively explosive. As always, the key country in that part of the world is Japan, where the growth rate of the leaders surged to 18 percent in January. Taiwan's leading index is close behind with a 15 percent growth rate, and Australia's is a perky 9 percent.

Note: Effective with this issue, the ten-year growth trends are calculated from data for 1976-86 (previously 1969-79).

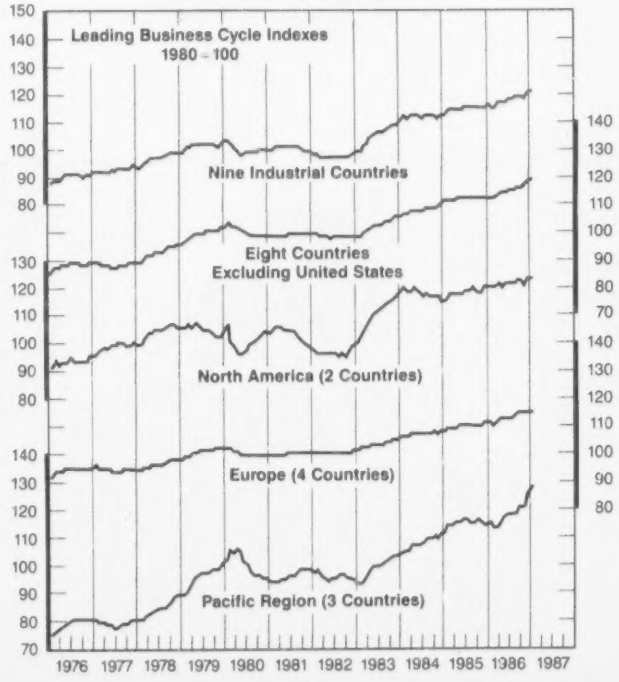
	Ten-year Growth Rate	*Indexes of Economic Performance Growth Rates**			*Leading Business Cycle Indexes Growth Rates**				
	1976-86	*6 mos. ago*	*3 mos. ago*	*Latest month*	*6 mos. ago*	*3 mos. ago*	*Latest month*	*Current Reading on the Cycle*	*Latest Month Covered*
	annual rates, percent								
9 countries	3	3	3	2	3	4	6	Expansion continuing	Jan.
8 countries ex. U.S.	3	3	3	3	3	5	8	Expansion continuing	Jan.
North America (2)	3	2	2	1	3	2	4	Expansion continuing	Jan.
Europe (4)	2	4	3	3	3	4	3	Expansion continuing	Jan.
Pacific Region (3)	4	2	3	4	5	8	17	Expansion continuing, leaders strong	Jan.
United States	3	2	2	1	3	0	7	Expansion continuing	Feb.
Canada	3	2	2	2	2	2	3	Expansion continuing	Jan.
West Germany	2	6	4	2	1	2	0	Expansion continuing, leaders weak	Jan.
France	2	4	4	3	5	5	5	Expansion continuing	Jan./Feb.
United Kingdom	2	3	4	5	1	1	3	Expansion continuing	Feb./Jan.
Italy	2	2	2	2	5	6	3	Expansion continuing	Oct./Jan.
Japan	4	2	3	4	5	6	18	Expansion continuing, leaders strong	Jan.
Australia	3	2	3	4	0	6	9	Expansion continuing, leaders strong	Jan.
Taiwan, R.O.C.	8	12	13	19	13	14	15	Expansion continuing, leaders strong	Feb.

* Ratio of current month's index to average index over the preceding 12 months, expressed as a compound annual rate.

Where We Are


Indexes of Economic Performance
1980 = 100
Nine Industrial Countries
Eight Countries
Excluding United States
North America (2 Countries)
Europe (4 Countries)
Pacific Region (3 Countries)
1976 1977 1978 1979 1980 1981 1982 1983 1984 1985 1986 1987

Where We're Headed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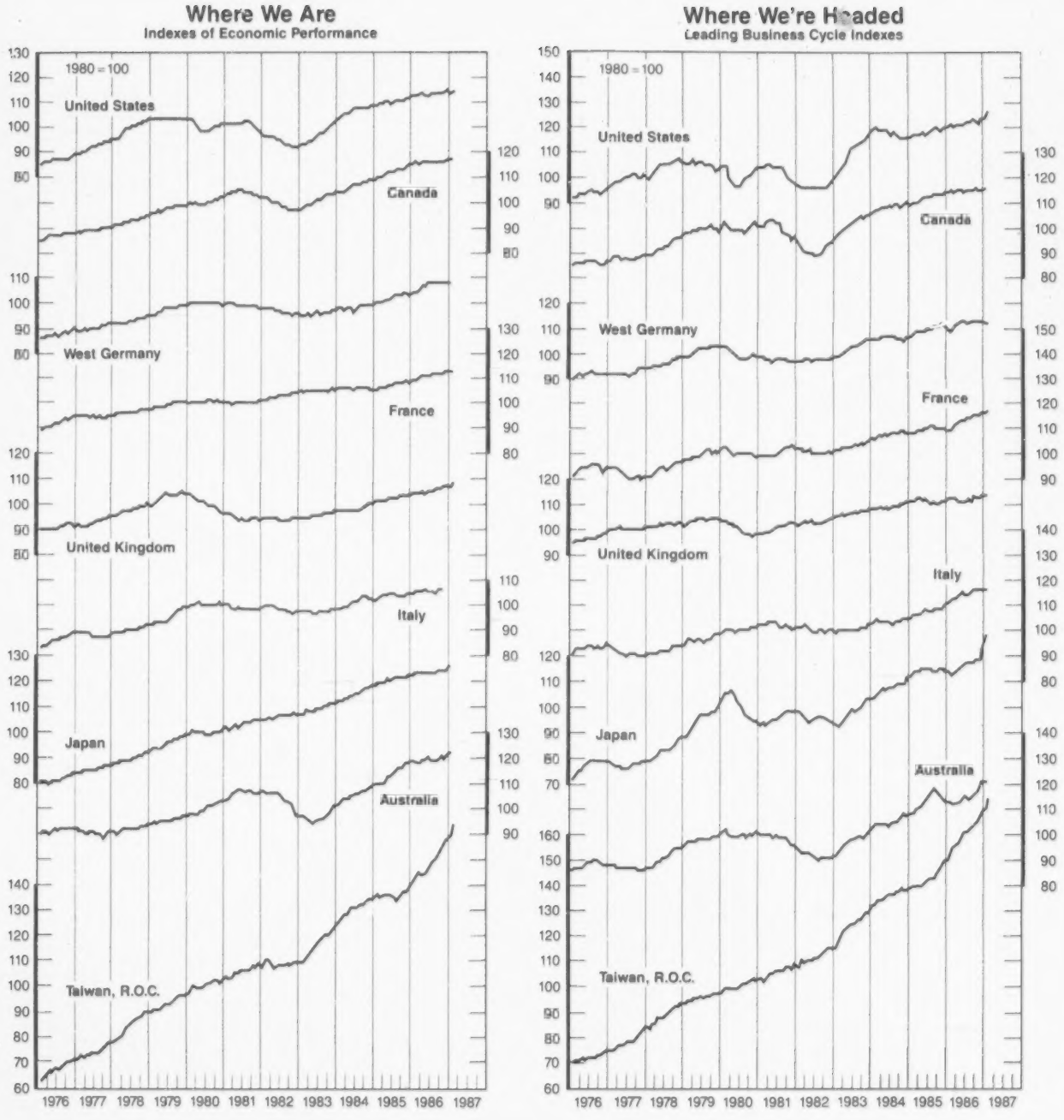
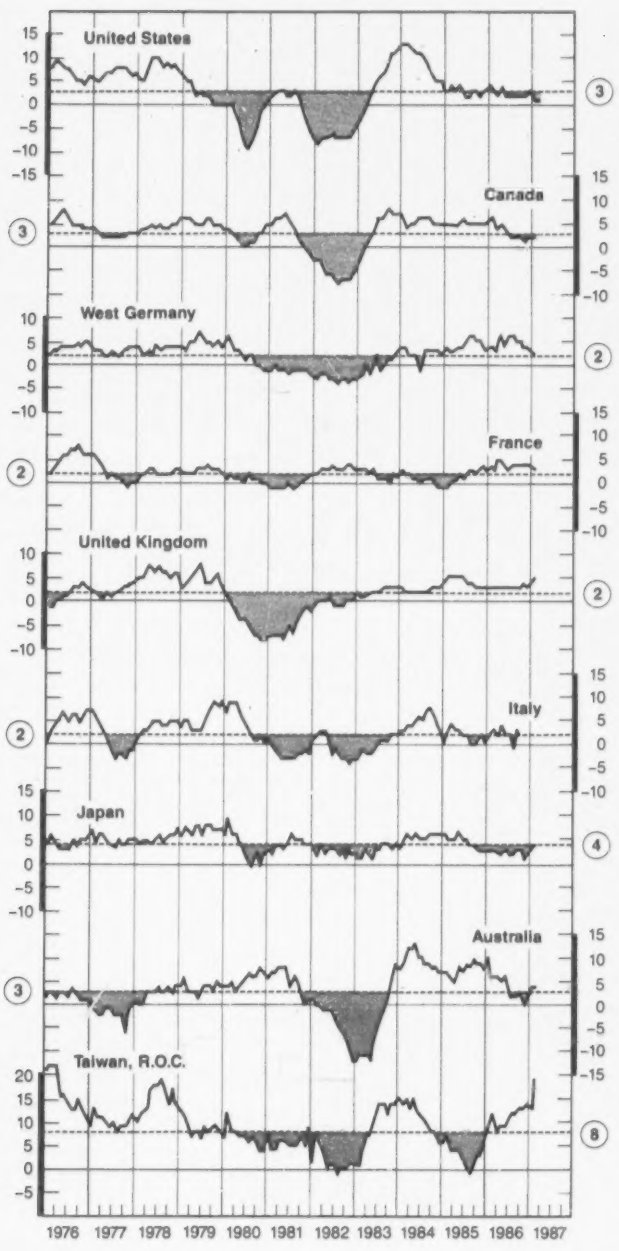


Source: Compiled for The Conference Board by the Center for International Business Cycle Research, Columbia Business School.

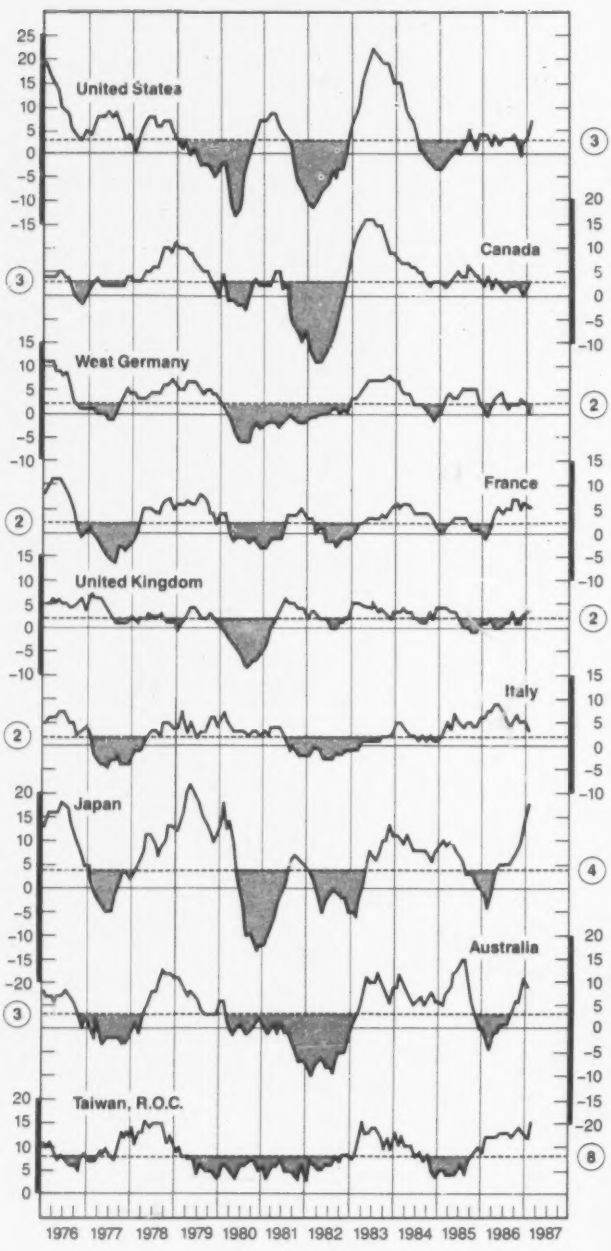
Where We Are

Growth Rates, %, Performance Indexes



Where We're Headed

Growth Rates, %, Leading Indexes



Note: Horizontal dashed lines are average growth rates for 1976-1986 in the index and in Real GNP.

Source: Compiled for The Conference Board by the Center for International Business Cycle Research, Columbia Business School.

OUTPUT AND INFLATION FORECASTS: HOW ACCURATE?

A couple of years ago, writing in *The AEI Economist,* Herbert Stein complained about the bum rap economic forecasters were getting from noneconomists. He argued, "I never see any factual information on the record of economic forecasting. It is as if a sports reporter were to appraise Ted Williams as a batter without giving his batting average but giving only an anecdote about the day he struck out three times." Among economists, of course, there has been considerable study of the forecasting record. In the U.S. the pioneering work of Victor Zarnowitz and Stephen McNees quickly comes to mind. In other countries, studies of the accuracy of forecasts are in their infancy.

Zarnowitz's most significant conclusions, drawn from the U.S. record, is that it is difficult for most individuals to predict consistently better than the consensus of a group of professional forecasters. In other words, there is a high probability that the consensus will have a smaller error over time than will the individual forecaster.

In this issue of the *Scoreboard* we examine a record of the consensus forecasts of changes in the real gross national product (GNP) and the consumer price index (CPI) for four major countries since 1982. In addition, we present the forecasts of real output and price changes for 1987 and 1988.

We obtained this record from *Blue Chip Economic Worldscan* (Capitol Publications, Arlington, Va.), which every month presents projections of year-to-year percentage changes in the GNP and the CPI for ten major countries. More than forty prominent forecasters from many countries regularly participate in this survey, which began in 1982.

The consensus forecasts of changes in output and prices that were made in October preceding the forecast year for the United States, the United Kingdom, West Germany, and Japan showed average errors (for all four countries combined) of 0.7 percentage points for output and 1.5 points for prices (see table). Whether this is a good, bad, or in-

AVERAGE ERRORS, WORLDSCAN CONSENSUS FORECASTS, 1983-1986

Real Gross National Product (year-to-year % change)

Month of Forecast	*Forecast Interval, Months*[a]	*United States*	*United Kingdom*	*West Germany*	*Japan*	*Average, 4 Countries*
		percentage points				
Preceding Year						
January	23	1.0	1.0	0.7	1.2	1.0
April	20	0.8	0.8	0.8	1.2	0.9
July	17	0.8	0.8	0.6	1.0	0.8
October	14	0.8	0.9	0.3	0.9	0.7
Forecast Year						
January	11	0.9	0.9	0.2	0.7	0.7
April	8	0.8	0.8	0.4	0.6	0.7
July	5	0.3	0.7	0.2	0.4	0.4
October	2	0.3	0.5	0.2	0.2	0.3
Consumer Price Index (year-to-year % change)						
Preceding Year						
January	23	2.7	2.5	1.6	2.0	2.2
April	20	1.8	2.3	1.5	1.7	1.8
July	17	1.5	1.9	1.4	1.5	1.6
October	14	2.0	1.7	1.2	1.2	1.5
Forecast Year						
January	11	1.4	1.3	1.0	1.0	1.2
April	8	0.7	1.1	0.6	0.5	0.7
July	5	0.4	0.5	0.4	0.3	0.4
October	2	0.1	0.3	0.2	0.2	0.2

[a] From date of forecast (col. 1) to end of forecast year.

Note: Average errors are calculated without regard to sign.

LATEST WORLDSCAN CONSENSUS FORECASTS FOR 1987, 1988

Real Gross National Product (year-to-year % change)

Month of Forecast	Forecast Span	Forecast Interval, months	United States	United Kingdom	West Germany	Japan
Actual[a]	1985-86	. . .	2.5	2.5	3.0	2.5
March 1987	1986-87	8	2.5	2.8	2.2	2.5
March 1987	1987-88	20	2.9	2.4	2.5	2.9

Consumer Price Index (year-to-year % change)

Actual[a]	1985-86	. . .	1.9	3.4	0.2	0.6
March 1987	1986-87	8	3.5	4.4	0.6	0.4
March 1987	1987-88	20	4.4	5.0	1.7	1.6

[a] For the 1985-1986 span, the figures are the actual year-to-year percent changes.

different record depends on your standards. One simple and widely used standard is the so-called "naive forecast," which calls for "no change in the rate of change." The "naive forecast," in other words, assumes that during the year ahead the percentage change in the GNP or the CPI will be same as the current year's change. Use of this forecasting method produces an average error in the year-to-year changes in output and prices for the four countries of 1.4 and 1.5 percentage points, respectively. The Wordscanners obviously have little difficulty beating this simple benchmark in their output predictions. On inflation, however, they scored no better than a tie.

Those who employed the "same change" rule, however, would not know precisely what the current year's rate of change was until after the end of the year. Therefore, it may be more appropriate to compare the benchmark predictions with the Worldscanner's forecast's in January of the forecast year (rather than the previous October). In this case, the consensus forecasts of output and price changes had average errors of 0.7 and 1.2 percentage points respectively, compared with the 1.4 and 1.5 point errors based on the "same change" rule. That is, across this slightly shorter time span the consensus did better than the naive forecast on prices as well as output.

As would be expected, forecast accuracy usually improves as the forecast interval gets shorter. Thus, the degree of precision is related to when the forecast is made. To measure this, we have calculated the average errors for different forecast spans, starting with the forecasts made in January almost two years before the end of the forecast year. The table clearly shows that in each country the earliest forecasts are subject to the greatest errors.

Another pattern that is readily visible in the table is the tendency for the West German record to show persistently smaller forecast errors than the other three countries. Perhaps this is due to the fact that since 1982 economic growth and inflation in West Germany has generally been steadier than in the other countries, and hence somewhat easier to forecast.

Looking Ahead

What are the Worldscanners telling us now about future changes in real output and inflation rates? The latest figures from the April survey are summarized in the second table. For 1987 and 1988 the forecasters' consensus calls for continued moderate economic expansion in all four countries. Indeed, the expected GNP growth rates are remarkably similar for all four countries—not far from 2½ percent for each year—and hardly changed at all from the actual growth for 1986. It is as though most forecasters simultaneously decided to employ the "naive forecast" technique for 1987 and 1988.

Not so for price inflation, however. For each country the consensus of the forecasters shows a speed-up in the rate of inflation either this year or next. In large part, presumably, this reflects what has happened to oil prices, where the decline from 1985 to 1986 was big enough to suppress markedly the general inflation rate. With that situation behind us now, the general price trend in the major industrial countries is expected to resume its normal upcreep, at least by 1988—around 2 percent per year in West Germany and Japan, around 5 percent in the U.S. and the U.K.

Will these forecasts prove to be accurate? The past record tells us to have somewhat more faith in the growth forecasts than in those for inflation. In both cases history also tells us that while it is rare for forecasters to be precisely on the mark, listening to them is better than using a blindfold and a pin!

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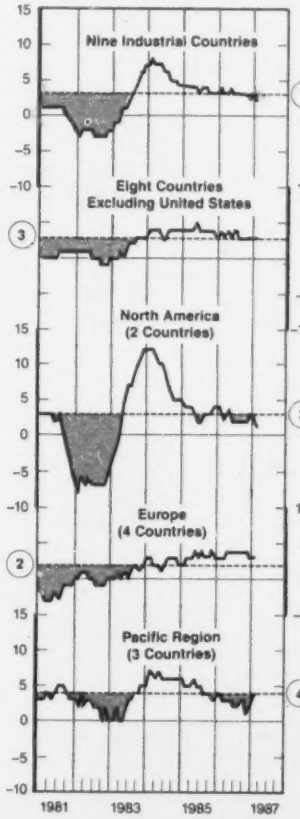
INDEXES, NINE COUNTRIES, 1985-87

		U.S.		Canada		West Germany		France		U.K.		Italy		Japan		Australia		Taiwan, R.O.C.	
		Indexes, 1980 = 100																	
		Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.
Nov.	85	111	118	114	113	104	111	109	110	103	110	104	108	121	114	118	114	137	148
Dec.	85	111	120	115	114	103	111	108	110	103	111	104	110	122	113	118	113	138	150
Jan.	86	112	120	115	114	104	110	109	109	104	112	104	111	122	114	119	113	141	150
Feb.	86	112	121	116	114	104	110	109	109	104	112	105	112	122	112	118	112	142	152
Mar.	86	112	120	115	114	105	111	110	111	104	112	105	112	123	112	118	112	145	154
Apr.	86	113	121	116	115	107	112	111	112	105	111	105	114	123	114	119	113	144	156
May	86	112	121	116	114	106	112	111	113	104	111	106	114	123	116	119	114	145	157
June	86	112	121	116	114	107	112	111	113	105	111	105	114	123	117	120	115	146	159
July	86	113	122	116	115	108	112	112	114	105	112	105	114	123	117	119	114	149	161
Aug.	86	113	122	116	115	108	112	112	114	106	111	104	114	123	117	119	115	150	162
Sept.	86	113	123	116	115	108	112	112	115	106	113	106	115	124	119	119	116	152	163
Oct.	86	113	122	116	116	108	112	112	115	106	112	106	116	124	120	120	117	154	165
Nov.	86	113	121	116	114	108	113	113	115	107	112		116	124	121	119	118	155	168
Dec.	86	114	123	117	115	108	113	113	116	107	113		116	125	124	121	121	158	169
Jan.	87	113	124	117	116	108	112	113	116	107	113		116	126	128	122	121	159	170
Feb.	87	114	126						117	108								164	174
		Growth Rates, Percent																	
Nov.	85	3	1	5	4	4	4	4	1	3	−1	2	4	3	1	9	3	3	9
Dec.	85	3	4	5	3	3	2	3	1	3	1	1	6	3	−1	8	0	4	10
Jan.	86	4	4	6	3	4	1	4	0	3	1	2	6	3	−1	10	0	7	9
Feb.	86	3	4	5	4	4	0	3	−1	3	1	2	7	3	−4	6	−3	9	11
Mar.	86	2	2	4	2	3	1	3	1	3	2	3	7	3	−3	6	−4	11	12
Apr.	86	4	4	5	3	6	2	4	4	3	0	2	9	2	1	6	−1	8	12
May	86	2	2	4	2	4	3	4	5	3	0	3	8	2	3	5	−1	9	12
June	86	2	3	3	1	6	2	3	4	3	0	2	6	2	5	6	1	9	13
July	86	2	3	2	2	6	1	4	5	3	1	2	5	2	5	2	0	12	13
Aug.	86	2	3	2	2	5	2	4	5	3	1	−1	4	2	5	2	1	12	13
Sept.	86	2	4	2	2	5	1	4	7	3	3	3	5	3	7	2	4	13	12
Oct.	86	2	2	2	2	4	2	4	7	3	1	2	6	3	8	3	6	13	13
Nov.	86	2	0	1	0	4	3	4	5	4	1		5	1	9	0	6	13	14
Dec.	86	3	3	2	1	3	2	4	6	3	2		5	2	14	4	11	14	13
Jan.	87	1	4	2	3	2	0	3	5	3	3		3	4	18	4	9	13	12
Feb.	87	1	7						5	5								19	15
		Ten Year Annual Growth Rate, Percent																	
1976-86		3	3	3	3	2	2	2	2	2	2	2	2	4	4	3	3	8	8

		9 Countries		8 Countries ex. U.S.		North America (2)		Europe (4)		Pacific Region (3)	
		Indexes, 1980 = 100									
		Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.
Nov.	85	111	115	111	112	111	118	105	110	122	115
Dec.	85	111	115	111	112	112	120	105	110	122	114
Jan.	86	112	116	112	112	112	120	106	110	122	115
Feb.	86	112	115	112	112	112	120	106	110	122	113
Mar.	86	112	115	112	112	112	120	106	111	123	113
Apr.	86	113	117	113	113	113	121	107	112	123	115
May	86	113	117	113	114	112	120	107	112	123	117
June	86	113	117	114	114	112	121	107	112	124	118
July	86	113	118	114	115	113	121	108	112	123	118
Aug.	86	113	118	114	115	113	121	108	113	124	118
Sept.	86	114	119	114	116	114	122	108	114	124	120
Oct.	86	114	119	115	116	113	122	108	114	125	121
Nov.	86	114	118	115	117	114	120	109	114	124	122
Dec.	86	115	120	115	118	114	123	109	114	125	125
Jan.	87	114	121	116	119	113	123	109	114	126	128
		Growth Rates, Percent									
Nov.	85	3	2	4	2	3	2	4	2	4	1
Dec.	85	3	2	3	1	4	4	3	2	3	0
Jan.	86	4	2	4	1	4	4	3	1	4	0
Feb.	86	3	2	3	0	3	4	3	1	3	−3
Mar.	86	3	1	3	1	2	2	3	2	3	−2
Apr.	86	4	3	4	2	4	4	4	3	3	1
May	86	3	3	3	3	3	2	4	3	3	3
June	86	3	3	3	3	2	3	4	3	3	5
July	86	3	3	3	3	2	3	4	3	2	5
Aug.	86	3	3	3	3	2	3	3	3	2	5
Sept.	86	3	4	3	5	2	3	4	4	3	7
Oct.	86	3	4	3	5	2	2	3	4	3	8
Nov.	86	2	3	3	5	2	0	4	3	2	9
Dec.	86	3	5	3	7	3	3	3	4	3	13
Jan.	87	2	6	3	8	1	4	3	3	4	17
		Ten Year Annual Growth Rate, Percent									
1976-86		3	3	3	3	3	3	2	2	4	4

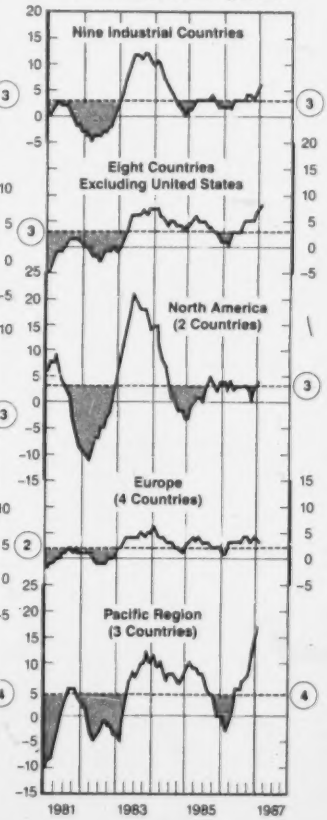
Where We Are

Growth Rates, %, Performance Indexes



Where We're Headed

Growth Rates, %, Leading Indexes



Note: Horizontal dashed lines are average growth rates for 1976-86 in the index and in real GNP

Sources : Center for International Business Cycle Research and The Conference Board.

R4105-6
6/18/87

A Monthly Report from The Conference Board

INTERNATIONAL ECONOMIC SCOREBOARD

The Conference Board

MAY, 1987

SUMMARY

The world business cycle continues to chug along on the expansion trail. For the fourth consecutive month there isn't a minus sign to be found among the growth rates of the leading or the performance indexes. In every country the performance indexes are rising at moderate rates. The leading indexes are doing better in most countries and thus suggest a quickening of economic growth in the months immediately ahead. The geographic pattern is mixed, with the least strength in Europe and the most in the Pacific Region.

Again this month, the robust climb in the Japanese leading index is a bit perplexing. As has been widely reported, Japanese stock prices have been booming. But beyond that, overtime hours, new orders for machinery and construction, raw materials prices and other early warning series have contributed to the advance in the leading index during recent months. Nevertheless, it is still difficult to reconcile these favorable signals against the many pessimistic reports from Tokyo about the economic difficulties caused by the elevated exchange value of the yen.

	Ten-year Growth Rate	*Indexes of Economic Performance Growth Rates**			*Leading Business Cycle Indexes Growth Rates**				
	1976-86	*6 mos. ago*	*3 mos. ago*	*Latest month*	*6 mos. ago*	*3 mos. ago*	*Latest month*	*Current Reading on the Cycle*	*Latest Month Covered*
	annual rates, percent								
9 countries	3	3	2	3	3	3	9	Expansion continuing	Feb.
8 countries ex. U.S.	3	3	3	3	3	5	8	Expansion continuing	Feb.
North America (2)	3	2	2	3	2	0	10	Expansion continuing, leaders strong	Feb.
Europe (4)	2	3	4	4	2	3	4	Expansion continuing	Feb.
Pacific Region (3)	4	2	2	3	5	9	16	Expansion continuing, leaders strong	Feb.
United States	3	2	3	3	4	5	11	Expansion continuing, leaders strong	Mar.
Canada	3	2	1	3	2	0	3	Expansion continuing	Feb.
West Germany	2	5	4	3	0	1	1	Expansion continuing, leaders weak	Feb.
France	2	4	4	3	7	7	6	Expansion continuing	Feb./Mar.
United Kingdom	2	3	5	5	1	3	6	Expansion continuing	Feb.
Italy	2	2	2	1	4	5	3	Expansion continuing	Jan./Feb.
Japan	4	2	1	3	5	9	17	Expansion continuing, leaders strong	Feb.
Australia	3	2	0	4	1	6	9	Expansion continuing, leaders strong	Feb.
Taiwan, R.O.C.	8	13	14	8	12	13	13	Expansion continuing, leaders strong	Mar.

* Ratio of current month's index to average index over the preceding 12 months, expressed as a compound annual rate.

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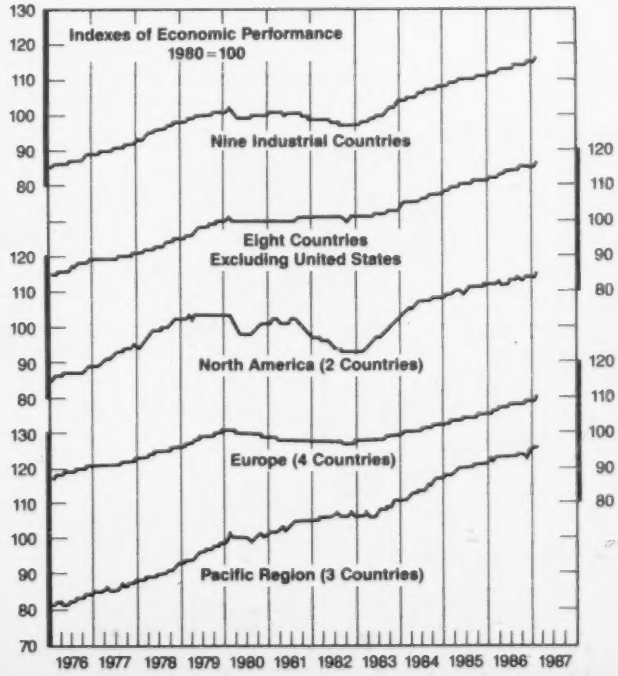
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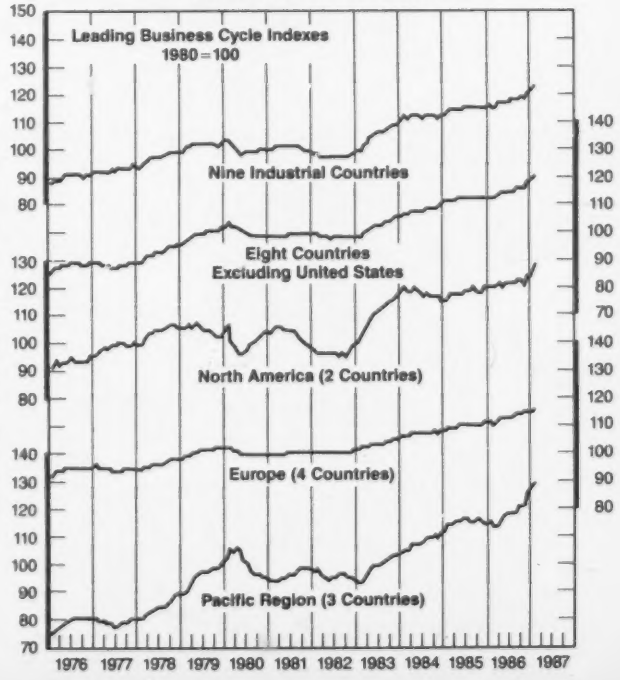
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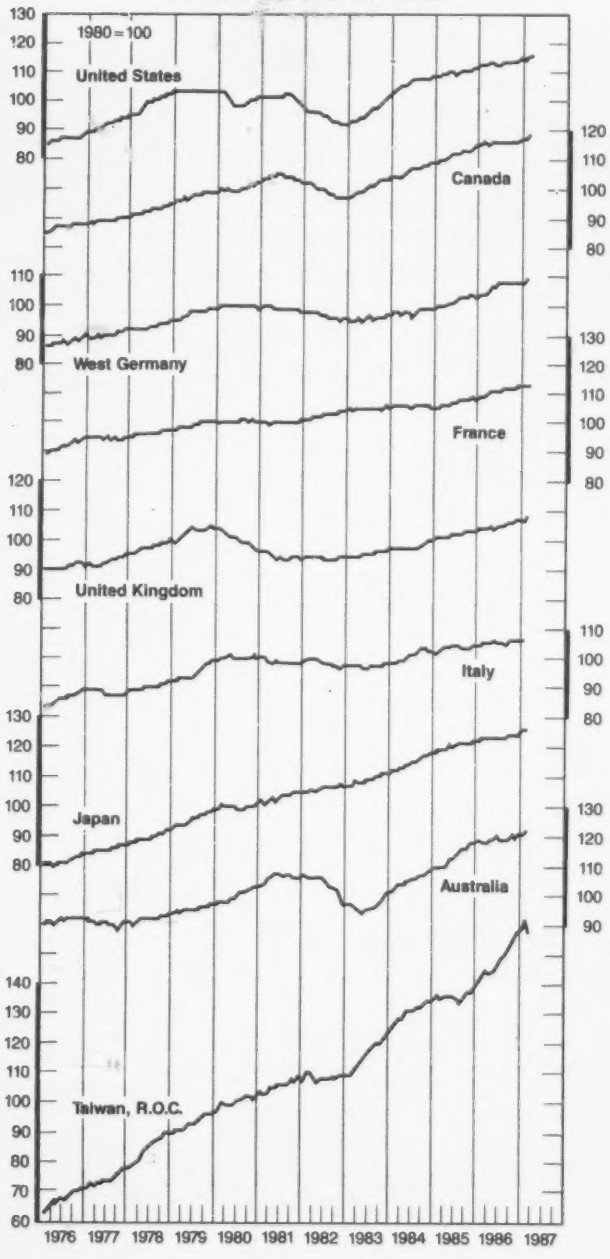
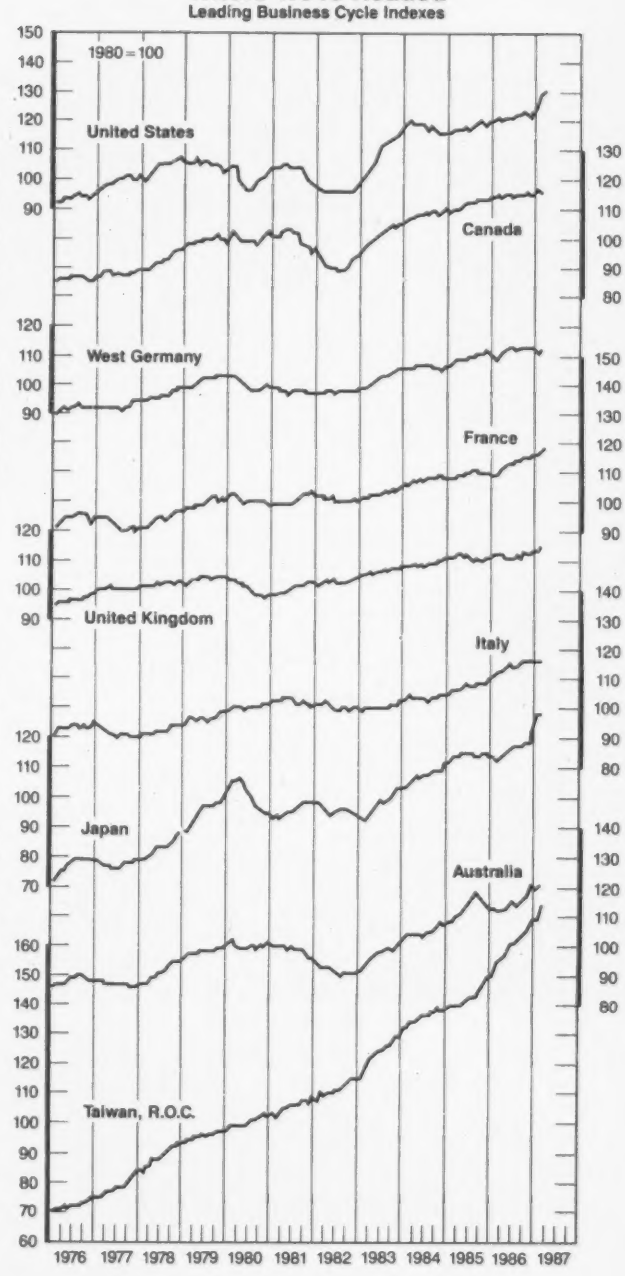
Where We Are

Indexes of Economic Performance



Where We're Headed

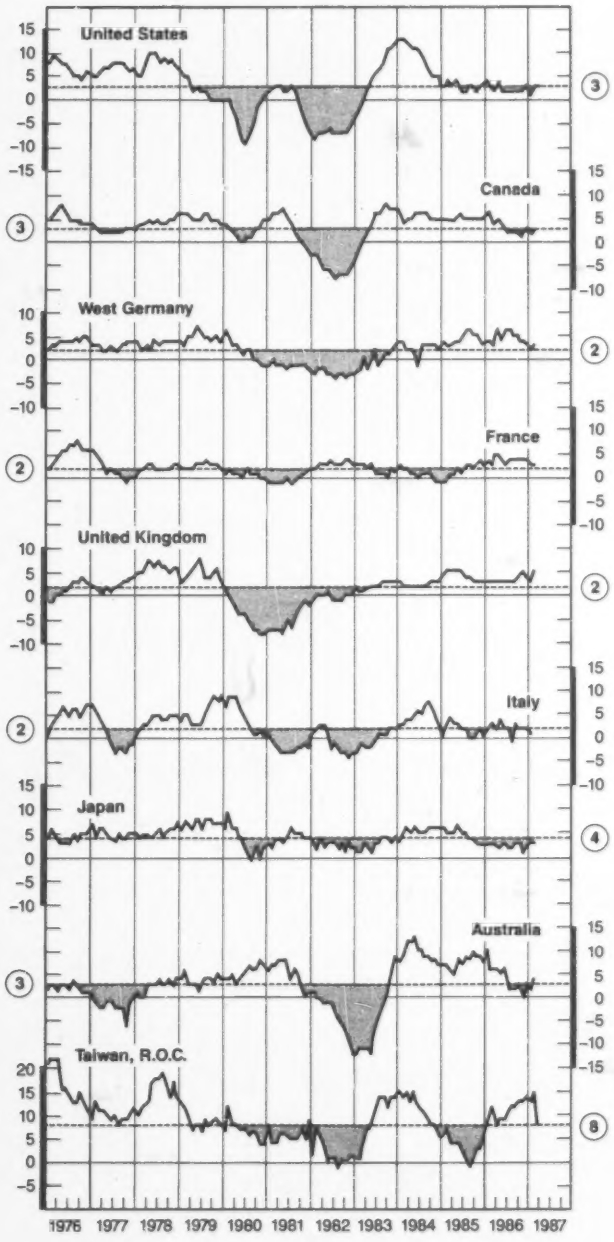
Leading Business Cycle Indexes



Source: Compiled for The Conference Board by the Center for International Business Cycle Research, Columbia Business School.

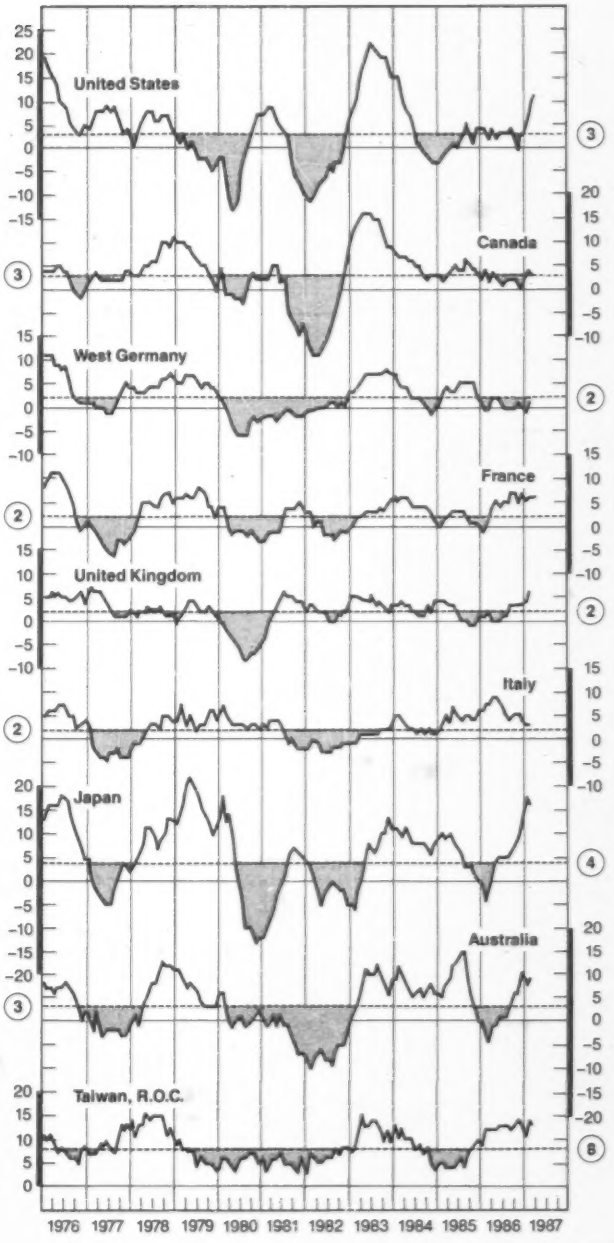
Where We Are

Growth Rates, %, Performance Indexes



Where We're Headed

Growth Rates, %, Leading Indexes



Note: Horizontal dashed lines are average growth rates for 1976-1986 in the index and in Real GNP.

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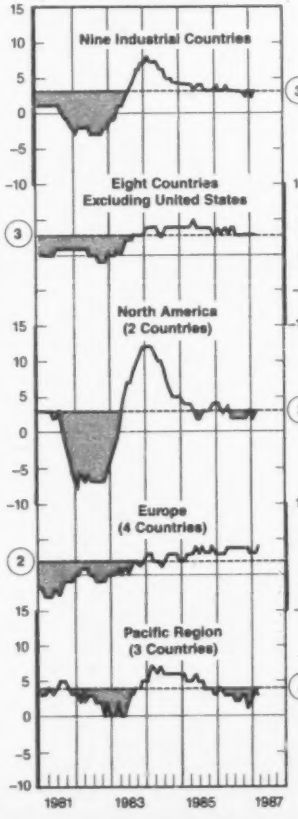
INDEXES, NINE COUNTRIES, 1985-87

		U.S.		Canada		West Germany		France		U.K.		Italy		Japan		Australia		Taiwan, R.O.C.	
		Indexes, 1980 = 100																	
		Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.
Nov.	85	111	118	114	113	104	112	109	110	103	110	104	109	121	114	118	114	137	148
Dec.	85	112	120	115	114	104	111	108	110	103	111	104	110	122	113	118	113	138	150
Jan.	86	112	120	115	114	104	111	109	109	104	111	104	111	122	114	119	113	141	150
Feb.	86	112	121	116	114	105	110	109	109	104	111	105	111	122	112	118	112	143	152
Mar.	86	112	120	115	114	105	111	110	111	104	112	105	112	123	112	118	112	146	154
Apr.	86	113	121	116	115	107	112	111	112	105	111	105	114	123	114	119	113	144	156
May	86	112	120	116	114	106	112	111	113	104	111	106	115	123	116	119	114	145	157
June	86	112	121	116	114	107	112	111	113	105	111	105	114	123	117	120	115	148	159
July	86	113	122	116	115	108	111	112	114	105	111	105	113	123	117	119	114	149	161
Aug.	86	113	122	116	115	108	111	112	114	105	111	104	114	123	117	119	115	150	162
Sept.	86	113	123	116	115	108	111	112	115	106	113	106	115	124	119	119	116	152	163
Oct.	86	113	122	116	116	108	111	112	115	106	113	106	115	124	120	120	118	154	165
Nov.	86	113	121	116	114	108	112	113	115	107	113	106	116	124	121	119	118	155	168
Dec.	86	114	124	117	115	108	112	113	116	107	114	106	116	125	124	121	120	158	169
Jan.	87	114	125	117	117	108	111	113	116	107	114	106	116	126	128	121	120	159	169
Feb.	87	115	129	118	116	109	112	113	117	108	115		116	126	128	122	121	162	173
Mar.	87	115	130						118									158	174
		Growth Rates, Percent																	
Nov.	85	3	1	5	4	4	4	4	1	4	0	2	4	3	1	9	3	3	9
Dec.	85	3	4	5	3	3	2	3	1	4	1	1	6	3	–1	8	0	4	10
Jan.	86	4	4	6	3	4	1	4	0	4	1	2	6	3	–1	10	0	8	9
Feb.	86	3	4	5	4	4	0	3	–1	4	0	2	6	3	–4	6	–2	9	11
Mar.	86	2	2	4	2	4	0	3	1	4	1	3	7	3	–3	6	–4	12	12
Apr.	86	4	4	5	3	6	2	4	4	4	0	2	9	2	1	6	–1	8	12
May	86	2	2	4	2	4	2	4	5	3	0	3	9	2	3	5	–1	9	12
June	86	2	3	3	1	6	1	3	4	3	1	2	7	2	5	6	1	9	13
July	86	2	3	2	2	6	0	4	5	3	1	2	5	2	5	2	0	11	13
Aug.	86	2	3	2	2	5	0	4	5	3	1	–1	4	2	5	2	1	12	13
Sept.	86	2	4	2	2	5	0	4	7	3	3	3	5	3	7	2	4	13	12
Oct.	86	2	2	2	2	4	0	4	7	4	3	2	5	3	8	3	6	13	13
Nov.	86	2	0	1	0	4	1	4	5	5	3	2	5	1	9	0	6	13	14
Dec.	86	3	5	3	1	3	0	4	7	4	3	2	4	2	14	3	10	14	13
Jan.	87	1	6	2	4	2	–1	3	5	3	4	1	3	3	18	2	8	13	11
Feb.	87	3	10	3	3	3	1	3	6	5	6		3	3	17	4	9	15	14
Mar.	87	3	11						6									8	13
		Ten Year Annual Growth Rate, Percent																	
1976-86		3	3	3	3	2	2	2	2	2	2	2	2	4	4	3	3	8	8

		9 Countries		8 Countries ex. U.S.		North America (2)		Europe (4)		Pacific Region (3)	
		Indexes, 1980 = 100									
		Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.
Nov.	85	111	115	111	112	111	118	105	110	122	115
Dec.	85	111	115	111	112	112	120	105	111	122	114
Jan.	86	112	116	112	112	112	120	106	110	123	115
Feb.	86	112	115	112	112	112	120	106	110	122	113
Mar.	86	112	115	112	112	112	120	106	111	123	113
Apr.	86	113	117	113	113	113	121	107	112	123	115
May	86	113	117	113	114	112	120	107	112	123	117
June	86	113	117	114	114	112	121	107	112	124	118
July	86	113	117	114	114	113	121	108	112	123	118
Aug.	86	114	118	114	114	113	121	108	112	124	118
Sept.	86	114	118	114	116	114	122	108	113	124	120
Oct.	86	114	119	115	116	113	122	108	113	125	121
Nov.	86	114	118	115	116	114	120	109	114	124	122
Dec.	86	115	120	115	118	114	124	109	114	125	125
Jan.	87	115	122	115	119	114	124	109	114	126	128
Feb.	87	116	123	116	120	115	128	110	115	126	129
		Growth Rates, Percent									
Nov.	85	3	2	4	2	3	2	4	2	4	1
Dec.	85	3	2	3	1	4	4	3	2	3	0
Jan.	86	4	2	4	1	4	4	3	1	4	0
Feb.	86	3	2	3	–1	3	4	3	1	3	–3
Mar.	86	3	1	3	0	3	2	3	2	3	–2
Apr.	86	4	3	4	2	4	4	4	3	3	1
May	86	3	3	3	3	3	2	4	3	3	3
June	86	3	3	3	3	2	3	4	3	3	5
July	86	3	3	3	3	2	3	4	2	2	5
Aug.	86	3	3	3	3	2	2	3	2	2	5
Sept.	86	3	4	3	5	2	3	4	3	3	7
Oct.	86	3	4	3	5	2	2	4	3	3	8
Nov.	86	2	3	3	5	2	0	4	3	2	9
Dec.	86	3	6	3	7	3	4	3	3	3	13
Jan.	87	2	7	3	8	2	6	3	3	4	17
Feb.	87	3	9	3	8	3	10	4	4	3	16
		Ten Year Annual Growth Rate, Percent									
1976-86		3	3	3	3	3	3	2	2	4	4

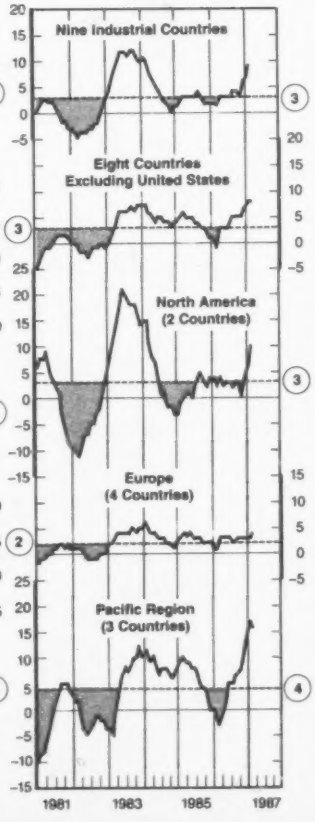
Where We Are

Growth Rates, %, Performance Indexes



Where We're Headed

Growth Rates, %, Leading Indexes



Note: Horizontal dashed lines are average growth rates for 1976-86 in the index and in real GNP

Sources : Center for International Business Cycle Research and The Conference Board.

A Monthly Report from The Conference Board

INTERNATIONAL ECONOMIC SCOREBOARD

The Conference Board

JUNE, 1987

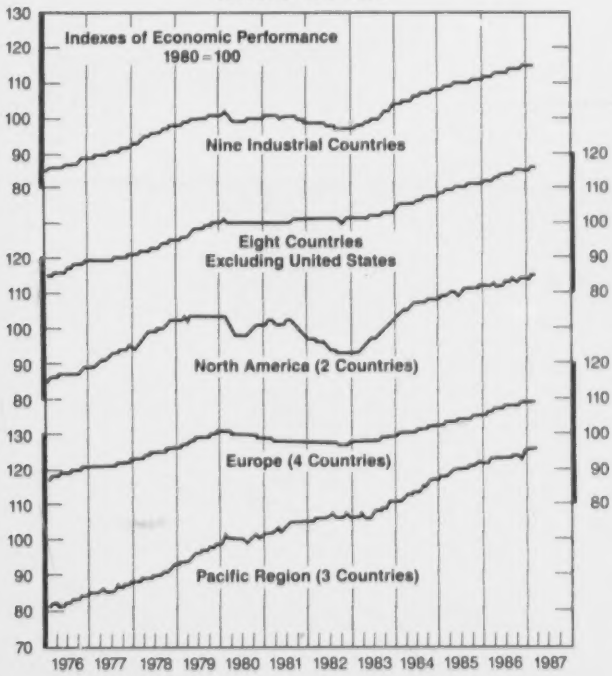
SUMMARY

Although the world business cycle has yet to break out of its pattern of moderate expansion, the leading indexes are signalling vigorous growth ahead for all except two of the nine major industrial countries. The exceptions are Canada and Italy, where only modest growth is indicated. For the nine countries as a group the leading index is rising at a spirited 10 percent annual rate, as compared with 7 percent three months ago, 5 percent six months ago, and 1 percent a year ago. Some of this exuberance is due to stock prices, which have advanced this year in every country except West Germany, but even when stock prices are omitted the leading indexes show gains. Japan, Taiwan, and Australia show the most rapid growth, and the West German leading index is now perking up nicely after months of stability. It remains to be seen whether the fire under the leading indicators will spread, but this is the usual pattern, and Taiwan is setting a good example with a 13 percent growth rate in its economic performance index.

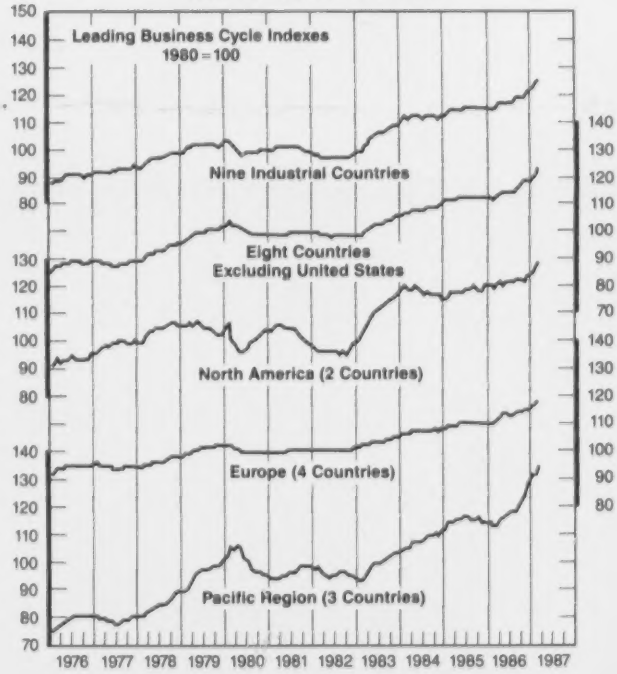
	Ten-year Growth Rate	*Indexes of Economic Performance Growth Rates**			*Leading Business Cycle Indexes Growth Rates**				
	1976-86	*6 mos. ago*	*3 mos. ago*	*Latest month*	*6 mos. ago*	*3 mos. ago*	*Latest month*	*Current Reading on the Cycle*	*Latest Month Covered*
	annual rates, percent								
9 countries	3	3	3	2	5	7	10	Expansion continuing, leaders strong	Mar.
8 countries ex. U.S.	3	3	3	3	5	9	11	Expansion continuing, leaders strong	Mar.
North America (2)	3	2	3	2	4	4	9	Expansion continuing	Mar.
Europe (4)	2	4	3	3	3	4	6	Expansion continuing	Mar.
Pacific Region (3)	4	3	3	3	9	17	20	Expansion continuing, leaders strong	Mar.
United States	3	2	1	2	3	5	8	Expansion continuing	Apr.
Canada	3	2	3	3	2	1	3	Expansion continuing	Mar.
West Germany	2	4	2	3	0	2	6	Expansion continuing	Apr./Mar.
France	2	5	5	3	7	6	9	Expansion continuing	Mar./Apr.
United Kingdom	2	3	4	4	3	3	8	Expansion continuing	Mar.
Italy	2	2	2	1	5	4	4	Expansion continuing	Jan./Mar.
Japan	4	3	2	2	9	18	22	Expansion continuing, leaders strong	Mar.
Australia	3	2	3	4	4	11	12	Expansion continuing, leaders strong	Mar.
Taiwan, R.O.C.	8	13	13	13	13	11	17	Expansion continuing, leaders strong	Apr.

* Ratio of current month's index to average index over the preceding 12 months, expressed as a compound annual rate.

Where We Are


Indexes of Economic Performance
1980=100
Nine Industrial Countries
Eight Countries
Excluding United States
North America (2 Countries)
Europe (4 Countries)
Pacific Region (3 Countries)
1976 1977 1978 1979 1980 1981 1982 1983 1984 1985 1986 1987

Where We're Headed


Leading Business Cycle Indexes
1980=100
Nine Industrial Countries
Eight Countries
Excluding United States
North America (2 Countries)
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Pacific Region (3 Countries)
1976 1977 1978 1979 1980 1981 1982 1983 1984 1985 1986 1987

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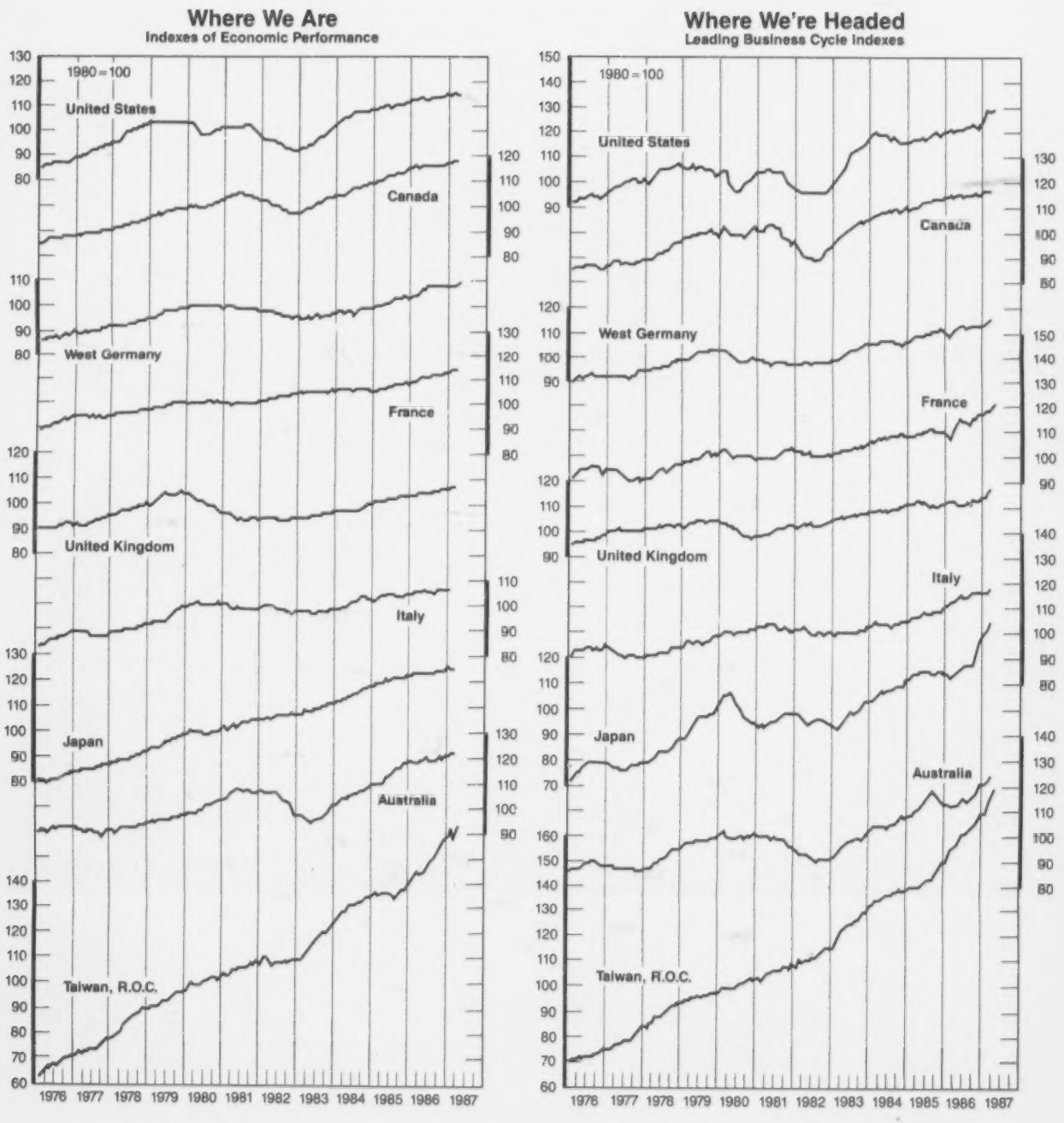

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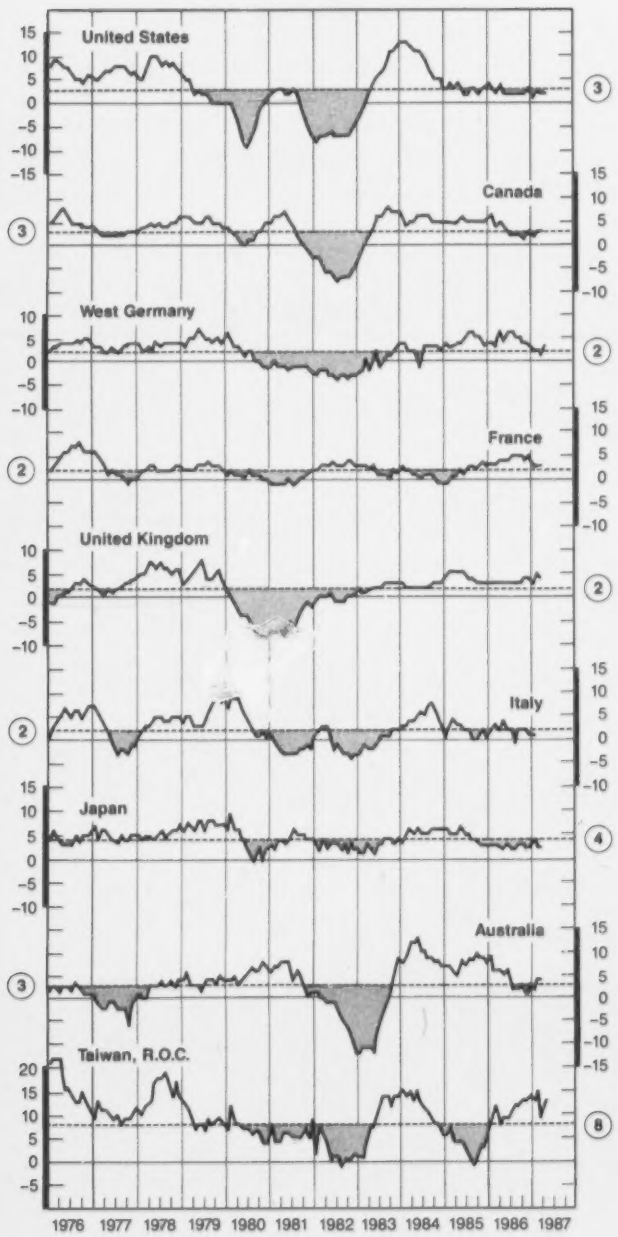
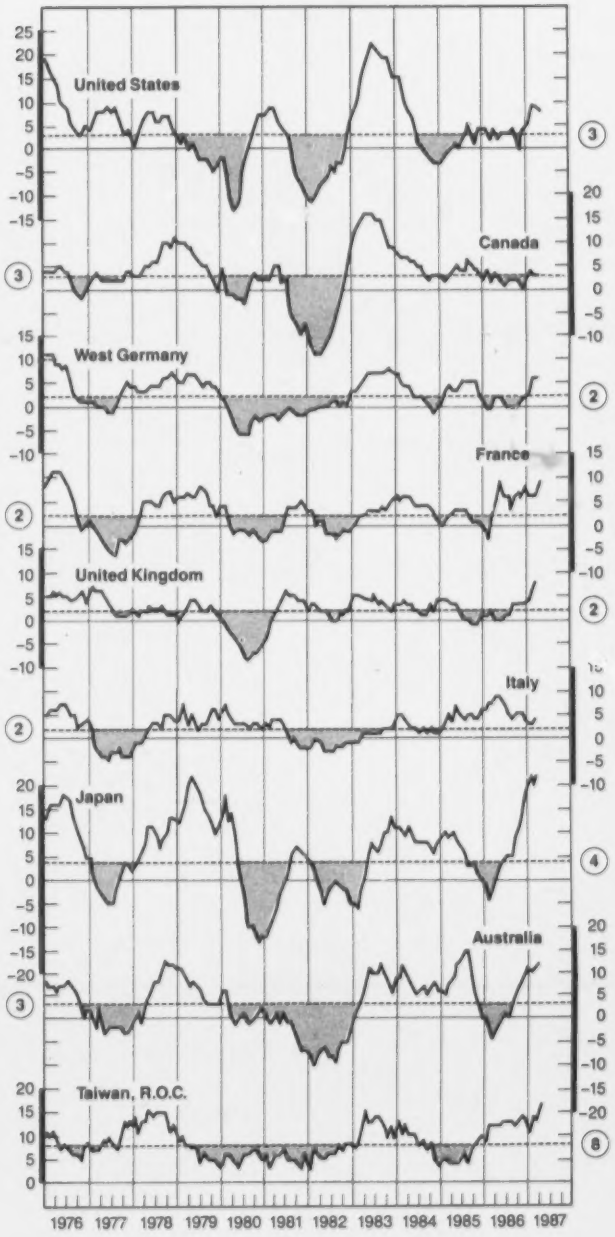
Where We Are

Growth Rates, %, Performance Indexes



Where We're Headed

Growth Rates, %, Leading Indexes



Note: Horizontal dashed lines are average growth rates for 1976-1986 in the index and in Real GNP.

Source: Compiled for The Conference Board by the Center for International Business Cycle Research, Columbia Business School.

FORECASTING THE U.S. TRADE BALANCE IN 1987

Do recent movements in the *Scoreboard's* leading indexes together with the decline in the dollar exchange rate, point to a reduction in the U.S. trade deficit in 1987? To answer this question, let us first take a look at the recent record of these factors in anticipating trade flows.

As *Scoreboard* readers know, the eight-country leading index was developed to track future movements in the world's major industrial economies outside the U.S. When economic activity in the aggregate grows in these countries, their demand for imports usually increases. Thus, growth in their output and income can lead to an increase in U.S. exports to them. Recessions in these economies can, in contrast, lead to a reduction in our exports to them. Since leading indicators are designed to anticipate faster growth, slower growth, or recession, they may also predict trends in U.S. exports.

U.S. Exports, Imports and Trade Balance

Changes in the dollar exchange rate are another factor in this picture. When the U.S. dollar increases in value relative to other currencies, one expects foreign demand for U.S. goods to fall. In contrast, a decline in the relative value of a dollar makes U.S. goods more competitive and one expects the quantity of U.S. exports to increase, although the expectation may not be quickly realized. Tests of the usefulness of the eight-country leading composite and the real exchange rates in predicting U.S. maufactured goods exports, as reported in the December 1986 *Scoreboard*, suggest that both factors are important.

An important distinction must be made between nominal and real dollar exchange rates. Nominal exchange rates are the rates typically quoted in the financial press, while real exchange rates are equal to nominal exchange rates plus an adjustment for inflation differentials between the U.S. and other countries. Because real exchange rates take into account both exchange-rate movments and relative price movements, the real exchange rates should be used in determining trade flows.

Accordingly, in this analysis we use two explanatory variables to predict the percent changes in the constant-dollar volume of U.S. exports: (1) the eight-country leading index for December preceding the forecast year, and (2) the real exchange rate in July preceding the forecast year. The real exchange rate is the 44-country index compiled by Morgan-Guaranty Trust Company. Both explanatory variables are expressed as six-month smoothed rates of change, as used in the *Scoreboard*. Similarly, in forecasting percent changes in imports, which are other countries' exports to the U.S., we use the six-month smoothed change in the *U.S.* leading composite for December preceding the forecast year and the preceding July's growth or decline in the real exchange rate.

The accompanying highlights the principal findings of this forecasting procedure as applied to the physical volume of exports, imports and the trade balance from 1972 to 1987. Given the simplicity of the analytical appartatus relative to the large task assigned to it, the forecasts are fairly good. Not surprisingly, however, some anomalies exist for individual years. For example, as the chart shows, exports were predicted to increase to 5 percent in 1986 whereas they actually fell by one percent. The correlation coefficient shows that 58 percent of the 1972-86 variation in the growth of exports was accounted for by the two factors.

For 1987, the volume of exports is expected to increase by 14 percent. Should this occur, it will be the largest percent increase in U.S. merchandise exports since 1973. Both the growth in the eight-country leading index and the decline in the dollar are contributing to this optimistic estimate.

The forecast changes in imports, which are based on growth rates in the U.S. leading index and in the real dollar exchange rate, were consistently higher than the actual changes in the early 1980's. More recently, however, just the opposite occurred. In 1986, for instance, imports were predicted to grow by 6 percent; the actual increas was 10 percent. The correlation coefficient shows that 72 percent of the variance in imports is related to these two factors. The 1987 prediction is that import volume will grow by 3 percent, well below the 10 percent growth in 1986.

The forecast levels of exports and imports that form the basis for the forecasts of the trade balance are obtained by multiplying the preceding year's actual levels by the forecast percent changes. The correlation coefficient shows that 92 percent of the movements in the trade balance has been picked up by the forecasts. In 1986, the trade deficit was 104 billion in 1977 dollars. The projection for 1987 on the basis of the forecast changes in exports and imports is a deficit of $93 billion, a reduction of $11 billion. This would be brought about by a much larger rise in exports ($19 billion) than in imports ($8 billion). For those who believe the appropriate objective for U.S. trade policy is balance between exports and imports, this suggests that some progress is being made but a very sizable problem still exists.

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INDEXES, NINE COUNTRIES, 1985-87

		U.S.		Canada		West Germany		France		U.K.		Italy		Japan		Australia		Taiwan, R.O.C.	
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Feb.	86	112	121	116	115	104	110	109	107	103	111	105	111	122	111	118	112	143	152
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May	86	112	120	116	114	106	112	110	115	104	111	106	115	123	115	120	114	145	157
June	86	112	121	116	114	107	112	111	114	104	111	105	114	123	116	121	115	148	159
July	86	113	122	116	115	108	111	112	114	104	112	106	113	123	116	119	114	149	161
Aug.	86	113	122	116	115	108	111	112	113	105	112	105	114	124	117	119	114	150	162
Sept.	86	113	123	116	115	108	111	112	115	105	113	106	115	124	119	120	116	152	163
Oct.	86	113	122	116	116	108	111	113	115	105	113	106	115	124	121	121	118	154	165
Nov.	86	113	121	116	114	108	112	113	116	106	113	106	116	124	124	120	119	155	168
Dec.	86	114	124	117	115	108	112	113	117	106	114	106	116	125	127	121	121	158	169
Jan.	87	114	125	117	117	108	113	113	117	106	114	106	116	126	130	121	121	159	169
Feb.	87	115	129	118	117	108	115	114	118	107	116		116	125	131	122	122	162	173
Mar.	87	114	128	118	117	108	116	114	118	107	117		117	125	134	122	124	158	174
Apr.	87	114	129			109			121									163	179
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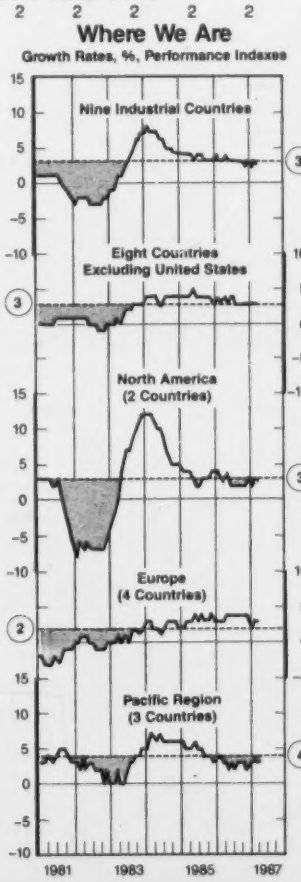
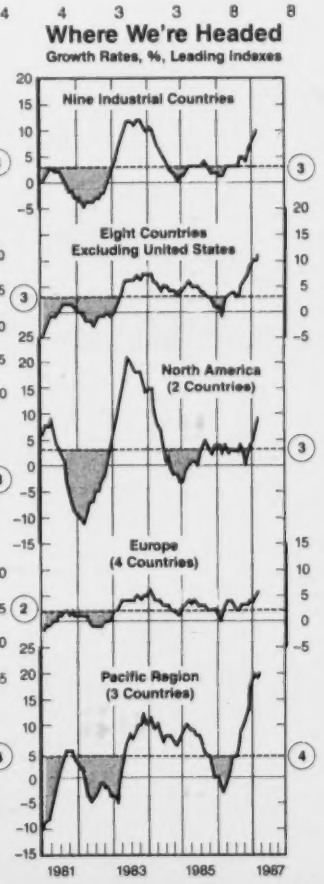
Nov.	85	3	2	5	4	4	4	4	2	4	–1	2	4	3	1	10	4	3	9
Dec.	85	3	4	5	3	3	2	3	1	4	1	1	6	3	–1	8	1	4	10
Jan.	86	4	4	6	3	4	1	3	–1	4	1	2	6	3	–1	9	0	8	9
Feb.	86	3	4	5	4	4	0	3	–3	4	0	2	6	3	–4	6	–3	9	11
Mar.	86	2	2	4	2	4	0	3	2	4	1	3	7	3	–3	6	–4	12	12
Apr.	86	4	4	5	3	6	2	4	6	4	0	2	9	2	0	6	–2	8	12
May	86	2	2	4	2	4	2	4	9	3	0	3	9	2	3	5	–1	9	12
June	86	2	3	3	1	6	1	4	6	3	1	2	7	2	4	6	1	9	13
July	86	2	3	2	2	6	0	5	6	3	1	2	5	2	5	2	0	11	13
Aug.	86	2	3	2	2	5	0	5	3	3	1	0	4	2	5	2	1	12	13
Sept.	86	2	4	2	2	5	0	5	6	3	3	2	5	3	9	2	4	13	12
Oct.	86	2	3	2	2	4	0	5	7	3	3	2	5	3	11	3	7	13	13
Nov.	86	2	0	1	0	4	1	4	6	4	3	2	5	2	14	1	8	13	14
Dec.	86	3	4	3	1	3	2	5	8	4	3	1	4	2	18	3	11	14	13
Jan.	87	1	5	2	4	2	3	3	6	3	4	1	3	4	22	2	10	13	11
Feb.	87	3	9	3	3	2	6	3	6	5	6		3	2	20	4	11	15	14
Mar.	87	2	9	3	3	1	6	3	6	4	8		4	2	22	4	12	9	13
Apr.	87	2	8			3			9									13	17
		Ten Year Annual Growth Rate, Percent																	
1976-86		3	3	3	3	2	2	2	2	2	2	2	2	4	4	3	3	8	8

		9 Countries		8 Countries ex. U.S.		North America (2)		Europe (4)		Pacific Region (3)	
		Indexes, 1980 = 100									
		Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.
Nov.	85	111	115	111	112	111	118	105	110	121	114
Dec.	85	111	115	111	112	112	120	105	110	122	114
Jan.	86	112	115	112	112	112	120	105	110	122	114
Feb.	86	112	115	112	111	112	120	106	110	122	113
Mar.	86	112	115	112	112	112	119	106	111	123	113
Apr.	86	113	117	113	113	113	121	107	112	123	115
May	86	113	117	113	114	112	120	107	113	123	116
June	86	113	117	113	114	112	121	107	113	124	117
July	86	113	117	114	114	113	121	108	112	123	118
Aug.	86	114	117	114	114	113	121	108	112	124	118
Sept.	86	114	119	114	116	114	122	108	113	124	120
Oct.	86	114	119	115	117	113	122	108	113	125	122
Nov.	86	114	119	115	118	114	121	109	114	124	124
Dec.	86	115	121	115	119	114	123	109	114	125	128
Jan.	87	115	122	115	120	114	124	109	115	126	131
Feb.	87	115	124	116	121	115	127	109	116	126	131
Mar.	87	115	125	116	123	115	128	109	117	126	134
		Growth Rates, Percent									
Nov.	85	3	2	4	2	3	2	4	2	3	1
Dec.	85	3	2	3	1	4	4	3	2	3	0
Jan.	86	4	2	4	1	4	4	3	1	4	0
Feb.	86	3	1	3	–1	3	4	3	0	3	–3
Mar.	86	3	1	3	1	3	2	3	2	3	–2
Apr.	86	4	3	4	3	4	4	4	4	3	1
May	86	3	3	3	4	3	2	4	4	2	3
June	86	3	3	3	4	2	3	4	3	3	4
July	86	3	3	3	3	2	3	4	2	2	4
Aug.	86	3	3	3	3	2	3	4	2	3	5
Sept.	86	3	5	3	5	2	4	4	3	3	9
Oct.	86	3	5	3	6	2	3	4	3	3	11
Nov.	86	2	4	3	7	2	0	4	3	2	13
Dec.	86	3	7	3	9	3	4	3	4	3	17
Jan.	87	2	8	3	10	2	5	2	4	4	20
Feb.	87	3	9	3	10	3	8	3	5	3	19
Mar.	87	2	10	3	11	2	9	3	6	3	20
		Ten Year Annual Growth Rate, Percent									
1976-86		3	3	3	3	3	3	2	2	4	4





Note: Horizontal dashed lines are average growth rates for 1976-86 in the index and in real GNP

Sources : Center for International Business Cycle Research and The Conference Board.